



REGENT PACIFIC GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 575

ANNUAL REPORT
2017

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PERFORMANCE OVERVIEW

PERFORMANCE OVERVIEW

Jamie Gibson, CEO of Regent said, “We have made good progress on our transformation strategy to create a focused healthcare investment company which delivers real value for shareholders. 2017 has been a year of investing for future growth, as a large amortisation charge on the Fortacin™ asset and costs related to the global commercialisation of Fortacin™ have weighed heavily on profitability.

The European launch of Fortacin™ in February this year and subsequent global launches will, we hope, generate long-term recurring royalty revenues from our commercial sales partners, further fuelling the Group’s future growth.”

A summary of the financial performance and other notable events for 2017 include:

- A loss attributable to shareholders of the Company of US\$27.36 million, which was mainly attributable to: (i) an amortisation charge of US\$28.05 million on the intangible asset, being Fortacin™, a non-cash item; and (ii) the operating expenses of US\$8.85 million; while being offset somewhat by: (iii) a milestone payment from Recordati S.p.A. (“**Recordati**”) of US\$5.27 million; and (iv) a marked-to-market gain of US\$4.48 million in respect of the Company’s equity portfolio of financial assets at fair value through profit or loss.
- Shareholders’ equity of US\$158.82 million, a decrease of approximately 12.43% as compared with that as at 31 December 2016, with the decrease being mainly attributable to the loss attributable to shareholders of the Company.
- As announced on 29 March 2017, the Company successfully undertook a placing and top-up subscription with BOCI Asia Limited, as placing agent, and James Mellon, as vendor, pursuant to which: (i) the placing agent, as the placing agent of the vendor, procured placees to purchase 100,000,000 shares at the placing price of HK\$0.405 (or approximately US\$0.052) per share; and (ii) the vendor subscribed for the equivalent number of shares at the same price of HK\$0.405 (or approximately US\$0.052) per share, raising approximately HK\$40.5 million (or approximately US\$5.21 million), gross proceeds, and approximately HK\$38.48 million (or approximately US\$4.95 million), net proceeds. It was announced that the net proceeds would be used to: (i) fund the New Drug Application (“**NDA**”) process with the US Food and Drug Administration (“**FDA**”), together with the continued commercial manufacturing scale up of Fortacin™; (ii) fund the build out of the Group’s healthcare and life sciences platform by investing in further identified and unidentified investments in the sector; and, in respect of the balance: (iii) provide general working capital for the Group. The placing and top-up subscription closed on 3 and 7 April 2017, respectively.
- As announced on 3 October 2017, the Group concluded negotiations with Recordati and agreed certain revisions to the commercial terms set out in the previous licence agreement entered into with Recordati on 16 September 2014 and effective from 26 September 2014, in respect of the rights to commercialise Fortacin™, including making the Group (as at 31 December 2017) eligible to receive remaining payments of up to EUR 37 million (or approximately US\$44.42 million) plus royalties after hitting certain milestones related to the Continental European roll-out.

PERFORMANCE OVERVIEW

- Manufacturing was completed for Recordati's initial purchase order, in respect of the upcoming commercial launch of Fortacin™ in France, Germany, Italy, Spain and Portugal in February and March 2018.
- The Group, together with Recordati, its commercial partner, has made tremendous progress during the period towards bringing Fortacin™ to market in France, Germany, Italy, Spain and Portugal in February and March 2018, followed by the launch in Greece, Romania, Czech Republic, Slovak Republic and Poland in the second half of 2018 and in the rest of Europe, Russia, the Commonwealth of Independent States (CIS) and selected countries of North Africa in the coming years.
- In parallel with the European roll-out effort of Fortacin™, the Group has further progressed the preparation of the NDA to the FDA, and remains in active discussions with possible commercial partners for the sale and distribution of Fortacin™ in the remaining key markets of China, North America, Latin America and the Asia Pacific regions.
- The Group is continuing to make positive progress with the Hong Kong Department of Health Drug Office and the Macau Government Health Bureau to acquire import licences to allow for the sale of Fortacin™ in Hong Kong and Macau.
- The successful disposal of the Group's entire interest in Condor Gold plc for an aggregate consideration of approximately US\$2.51 million in cash, which was a discloseable transaction of the Group.
- Maintaining and actively monitoring its existing and strategic investment in The Diabetic Boot Company Limited, together with the continued equity accounting of the investment.
- Maintaining and actively monitoring its existing and strategic investment in Venturex Resources Limited, representing approximately 16.32% of the share capital of the company as at 31 December 2017.
- As at 31 December 2017, the Company had no debt, having cash and listed and unlisted securities of US\$11.03 million.

Going forward, the Group will continue with: (i) the successful commercialisation of Fortacin™ as quickly as possible, not only in Europe with Recordati, but also in the remaining key markets of China, North America, Latin America and the Asia Pacific regions; and (ii) its existing strategy of pursuing strategic and value-led investments in the healthcare and life sciences sectors.

CHAIRMAN'S STATEMENT

Dear Shareholders

Despite challenging global markets in 2017, the Group continued to make good progress on its strategic transformation to shift investment focus to healthcare and life sciences sectors and divest legacy and non-core assets. I am pleased to report the Group's results for the year ended 31 December 2017.

FINANCIAL HIGHLIGHTS AND REVIEW

The Group's balance sheet remains strong and nimble, with cash balances and listed and unlisted securities of approximately US\$11.03 million, with no external debt. Our net asset value per share was approximately US cents 8.642 (HK cents 67.53) at the end of 2017.

The Group recorded a loss attributable to shareholders of the Company of US\$27.36 million, which was mainly attributable to: (i) an amortisation charge of US\$28.05 million on the intangible asset, being Fortacin™, a non-cash item; and (ii) operating expenses of US\$8.85 million; while being offset somewhat by: (iii) a milestone payment from Recordati S.p.A. ("**Recordati**") of US\$5.27 million; and (iv) a marked-to-market gain of US\$4.48 million in respect of the Company's equity portfolio of financial asset at fair value through profit or loss ("**FAFVPL**").

While it was disappointing that profitability could not be achieved for 2017, we are continuing to work diligently, with our partners, on the commercial roll-out of Fortacin™ and great strides have been taken and significant milestones achieved, with a view to creating a steady stream of recurring cash flow for the Group in the years to come.

The Group's portfolio of FAFVPL recorded a net realised and unrealised gain of approximately US\$4.44 million for the year ended 31 December 2017. The total value of our portfolio of FAFVPL was approximately US\$8.78 million as at 31 December 2017, up from approximately US\$7.39 million in 2016.

As announced on 29 March 2017, the Company successfully undertook a sensible and measured capital raising, by way of a placing and top-up subscription with BOCI Asia Limited, as placing agent, and James Mellon, as vendor, to raise approximately HK\$40.5 million (or approximately US\$5.21 million), gross proceeds, and approximately HK\$38.48 million (or approximately US\$4.95 million), net proceeds. The funds raised were sufficient to cover the costs involved in the continued commercial manufacturing scale up of Fortacin™, as well as further progress the ever important New Drug Application ("**NDA**") process with the US Food and Drug Administration ("**FDA**") and, more generally, provide general working capital for the Group. This capital raising put the Group in a strong and robust financial position ahead of the launch of Fortacin™ in Europe, scheduled for February and March 2018.

The Group was then able to successfully conclude negotiations with commercial partner, Recordati, regarding certain revisions to the commercial terms set out in the previous licence agreement in respect of the rights to commercialise Fortacin™. As a result, as at 31 December 2017, the Group was eligible to receive remaining payments of up to EUR 37 million (or approximately US\$44.42 million) plus royalties after hitting certain milestones related to the European roll-out.

CHAIRMAN'S STATEMENT

HEALTHCARE AND LIFE SCIENCES FOCUS

The Group's healthcare and life sciences investments remain its core focus and the Group believes that investments in this sector will create substantial returns for our shareholders in the medium to longer term. As part of this focus, we have worked diligently to further strengthen our relationships with key commercial partners and stakeholders in this sector.

A key milestone for the Group will be the commercial launch of Fortacin™ in Europe. We are pleased to report that Recordati has placed its initial purchase order and manufacturing has been completed, with launch supplies released to the distributors in early February 2018. Launches have been scheduled in France, Germany, Italy, Spain and Portugal for February and March 2018, followed by the scheduled launch in Greece, Romania, Czech Republic, Slovak Republic and Poland in the second half of 2018 and in the rest of Europe, Russia, the Commonwealth of Independent States (CIS) and selected countries of North Africa in the coming years.

In parallel with the European roll-out effort of Fortacin™, the Group has further progressed the preparation of the NDA to the FDA, and remains in active discussions with possible commercial partners for the sale and distribution of Fortacin™ in the remaining key markets of China, North America, Latin America and the Asia Pacific regions. The Group is continuing to make positive progress with the Hong Kong Department of Health Drug Office and the Macau Government Health Bureau to acquire import licences to allow for the sale of Fortacin™ in Hong Kong and Macau.

OTHER EXISTING INVESTMENTS

During the period, the Company also continued to successfully execute its stated divestment programme of non-core legacy investments as and when acceptable opportunities arose. In this respect, the Company successfully disposed of its entire interest in Condor Gold plc for an aggregate consideration of approximately US\$2.51 million in cash, which was a discloseable transaction of the Group.

Looking at the Group's existing and legacy investments in natural resources (which are non-core and are the focus of its existing divestment programme), energy related investments have stabilised and the Group's not insignificant exposure to base metals (copper and zinc in particular) continues to enjoy a recovery of note. While commodity markets remain volatile, there has been a noticeable shift of investment activity towards exploration and not just producers. We remain confident that on a fundamental basis, demand will be underpinned by urbanisation of emerging and recovery of developed economies globally. We see the potential for the Company's investment in Venturex Resources Limited ("Venturex") to see further increases (on a marked-to-market basis), partly due to Venturex de-risking its copper-zinc project at Sulphur Springs and partly by strengthening of the copper and zinc prices.

OUTLOOK

Around the world, central banks have struggled to stoke consumer price inflation, including in the United States. We believe that a number of one-off factors that have been holding back inflation should begin to fade away in 2018, which should result in gradual upward momentum for prices.

CHAIRMAN'S STATEMENT

Despite the challenges with inflation, the unemployment rates continue to improve, being at its lowest level in the United States since 2001 with the number of job openings at a record high. On that basis, we expect interest rates to rise in the United States, with other economies to follow suit in due course.

For the first time in a long time just about every corner of the global economy is expanding at the same time. We are not bracing for recession in Europe as we were in 2010-2012 after the sovereign debt crisis there, nor are we expecting another great moderation in China and the associated knock-on effects for emerging markets as we have seen over the course of recent years. Instead, we are seeing slow, steady growth, all of which is positive.

While global growth begins to firm, central banks around the world are beginning to dial back policy accommodation. As a result, we are entering a period of monetary policy "convergence" which, we acknowledge, could be affected by a number of factors including high government debt levels in Japan and China, the potential for a hard Brexit and of course geopolitical risks, especially with North Korea.

As this economic cycle continues to approach records for duration, financial markets similarly extend uninterrupted gains. With major stock indices routinely breaking all-time highs, investors are positioned for economic perfection. That may not be what we get, but aside from asset prices themselves, it is difficult to point to a sector that has over-extended itself so much that recession is right around the corner.

For 2018, we expect continued growth globally, albeit at the existing slow, gradual pace, with growth in consumer spending to continue based on the gains in jobs and wages as well as a wealth effect given the gains in financial markets and home prices.

Unlike the Group's legacy investments in natural resources, the Group's healthcare and life sciences investments are far less sensitive to macroeconomic fundamentals and fluctuations and remain its core focus.

Our strategy remains the same and our balance sheet has us well positioned to deliver on this. The Company has every intention of continuing with its existing business of investing in companies engaged in the healthcare and life sciences sectors. With the ongoing commercialisation of Fortacin™ globally in the coming years, our progress with the FDA and ongoing discussions with other possible commercial partners, we remain tremendously excited about the future prospects for the Group.

On behalf of the Board, I want to thank our shareholders for their continued support and our employees for their hard work in another challenging, but rewarding year.

James Mellon

Chairman

23 March 2018

CEO'S REPORT

2017 was another positive year for the Group, having consolidated the acquisition of Plethora Solutions Holdings plc ("**Plethora**") and laid the necessary groundwork for the landmark commercial launch of Fortacin™ in Europe scheduled in February and March 2018.

During the year of 2017, the Group recorded a loss attributable to shareholders of the Company of US\$27.36 million, which was mainly attributable to: (i) an amortisation charge of US\$28.05 million on the intangible asset, being Fortacin™, a non-cash item; and (ii) operating expenses of US\$8.85 million; while being offset somewhat by: (iii) a milestone payment from Recordati S.p.A. ("**Recordati**") of US\$5.27 million; and (iv) a marked-to-market gain of US\$4.48 million in respect of the Company's equity portfolio of financial assets at fair value through profit or loss.

From a capital management standpoint, and as announced on 29 March 2017, the Company successfully undertook a placing and top-up subscription with BOCI Asia Limited, as placing agent, and James Mellon, as vendor, pursuant to which the Group placed 100,000,000 shares at the placing price of HK\$0.405 (or approximately US\$0.052) per share to raise approximately HK\$40.5 million (or approximately US\$5.21 million), gross proceeds, and approximately HK\$38.48 million (or approximately US\$4.95 million), net proceeds. It was announced that the net proceeds would be used to: (i) fund the New Drug Application ("**NDA**") process with the US Food and Drug Administration ("**FDA**"), together with the continued commercial manufacturing scale up of Fortacin™, of which US\$2.46 million of the net amount raised were expended as at 31 December 2017; (ii) fund the build out of the Group's healthcare and life sciences platform by investing in further identified and unidentified investments in the sector, of which US\$0.2 million of the net amount raised were expended as at 31 December 2017; and, in respect of the balance: (iii) provide general working capital for the Group, of which US\$2.29 million of the net amount raised were expended as at 31 December 2017. This capital raising put the Group in the best possible position ahead of the launch of Fortacin™ in Europe from February 2018.

Following the Group's successful negotiations with Recordati regarding certain revisions to the commercial terms set out in the previous licence agreement entered into with Recordati in respect of the rights to commercialise Fortacin™, including making the Group (as at 31 December 2017) eligible to receive remaining payments of up to EUR 37 million (or approximately US\$44.42 million) plus royalties after hitting certain milestones related to the European roll-out, progress towards commercialisation has gathered strong momentum and the Group is optimistic that the European roll-out by Recordati will be on time and in March 2018. In this regard, manufacturing was completed for Recordati's initial purchase order in respect of the upcoming commercial launch of Fortacin™ in France, Germany, Italy, Spain and Portugal in February and March 2018, followed by the launch in Greece, Romania, Czech Republic, Slovak Republic and Poland in the second half of 2018 and in the rest of Europe, Russia, the Commonwealth of Independent States (CIS) and selected countries of North Africa in the coming years.

In parallel with the European roll-out effort of Fortacin™, the Group has further progressed the preparation of the NDA to the FDA, and remains in active discussions with possible commercial partners for the sale and distribution of Fortacin™ in the remaining key markets of China, North America, Latin America and the Asia Pacific regions.

CEO'S REPORT

The Group is continuing to make positive progress with the Hong Kong Department of Health Drug Office and the Macau Government Health Bureau to acquire import licences to allow for the sale of Fortacin™ in Hong Kong and Macau.

During the period, the Company also continued to successfully execute its stated divestment programme of non-core legacy investments as and when acceptable opportunities arose. In this respect, the Company successfully disposed of its entire interest in Condor Gold plc for an aggregate consideration of approximately US\$2.51 million in cash, which was a discloseable transaction of the Group.

Shareholders' equity decreased by 12.43% to US\$158.82 million as at 31 December 2017 from US\$181.37 million as at 31 December 2016.

As at 31 December 2017, the Company had no debt, having cash and listed and unlisted securities of US\$11.03 million.

With a streamlined focus and sensible capital structure, the Company remains excited about the future prospects for the Group and its shareholders, and will: (i) continue to pursue the successful commercialisation of Fortacin™ as quickly as possible, with the European roll-out with Recordati set to launch in March 2018, as well as in the remaining key markets of the US, Latin America and Asia Pacific regions; and (ii) continue with its existing strategy of pursuing strategic and value-led investments in the healthcare and life sciences sectors.

A review of the Group's associated investments, together with the results of its main listed investments, are set out below.

PLETHORA

Highlights

- Fortacin™ was launched in the UK in November 2016 online via an online consultation, with prescriptions filled by Chemist 4 U (<https://www.chemist-4-u.com/>).
- Three (3) good manufacturing practice ("GMP") batches of the Fortacin™ 12 dose product previously manufactured by Pharmaserve (North West) Limited ("Pharmaserve"), together with a further variation application to widen the moisture levels permitted in the product during shelf life, received approval from the European Medicines Agency ("EMA") on 23 March 2017, enabling the manufacture and release of the European Union ("EU") commercial supplies for launch of Fortacin™, planned by Recordati in February/March 2018.
- Additional manufacturing process development at Pharmaserve was completed on the 380 litre commercial scale up, which increased the commercial batch size for Fortacin™ by approximately threefold, with a view to lowering the unit price and meeting the anticipated increase in demand following the EU commercial launch in February/March 2018 by Recordati.

CEO'S REPORT

PLETHORA (Continued)

Highlights (Continued)

- The Company, on behalf of Plethora, has formally approached the Hong Kong Department of Health and the Macau Government Health Bureau to acquire import licences to allow for the sale of Fortacin™ in Hong Kong and Macau.
- Preparations for the filing of the NDA with the FDA.
- Discussions with new potential licencing partners for Fortacin™ in other geographical regions at an advanced stage.
- For financial year ended 31 December 2017, Plethora made a profit of GBP 1.68 million (or approximately US\$2.16 million) (2016: loss of GBP 6.63 million (or approximately US\$8.99 million)), excluding the amortisation cost of an intangible asset, Fortacin™, and the tax credit in respect of the deferred tax liability.

Operations Update

Management's focus remains squarely on the commercialisation of Fortacin™. Plethora undertook a soft launch of Fortacin™ in the UK from 10 November 2016 via an online platform, which was required to be done before the sunset clause deadline of 19 November 2016. With the transfer of the European Marketing Authorisation to Recordati on 2 November 2017, Recordati has now taken over the distribution, marketing and sales of Fortacin™ for Europe including the UK, Russia, the Commonwealth of Independent States (CIS) and selected countries of North Africa and consequently the Group has terminated its distribution agreement with JJS Pharma (UK) Limited ("JJS Pharma") the wholesaler for the UK.

Commercial Launch of Fortacin™ in Europe by Recordati

Post year end, Fortacin™ was officially launched, by way of first commercial sales from Recordati to wholesalers in Italy on 9 February 2018, with first Fortacin™ sales to follow in France and Spain on 16 and 19 February 2018, respectively, and thereafter in Germany and Portugal on 1 March 2018.

Recordati remains confident that the planned commercialisation of Fortacin™ in Greece, Romania, Czech Republic, Slovak Republic and Poland in the second half of 2018 remains on schedule with commercialisation efforts to target the rest of Europe, Russia, the Commonwealth of Independent States (CIS) and selected countries of North Africa in the coming years.

380L Commercial Manufacturing Scale Up

Plethora commenced additional manufacturing process development at Pharmserve with the goal of increasing the commercial batch size for Fortacin™ by approximately threefold to circa 50,000 cans per manufacturing run. The increased number of units produced per batch should offer benefits of a lower unit price and enable the anticipated increase in demand following the anticipated EU commercial launch in 2018 by Recordati to be met.

CEO'S REPORT

PLETHORA (Continued)

380L Commercial Manufacturing Scale Up (Continued)

Plans to increase the batch size to approximately 380L are ongoing. The change in batch size would require preparation, submission and approval of a variation application, together with amendment of in-process limits or minor changes to the manufacturing process.

The manufacture of 3 x process validation batches of the 12 dose product at the 380L scale has recently been completed. Stability data on release at time point zero for the three batches has been received with the data being within specification.

Stability studies on the three pharmacovigilance (PV) batches will be initiated by Recordati, with the aim of completing the necessary regulatory submission to EMA in 2018 to support the wider sale and distribution of Fortacin™ in Europe by Recordati.

Additional stability data has been generated on the 3 x GMP batches of the 12 dose product manufactured at Pharmaserve, which were used to support registration of the 12 dose product to the European Marketing Authorisation. Stability data at the 18-month timepoint, which corresponds to the end of the registered shelf life, was within specification for all 3 GMP batches.

Regulatory Submissions

Plethora received a favourable opinion from EMA on 23 March 2017 and 27 June 2017 for two variation applications amending the specification and manufacturing process of Fortacin™. This enabled commercial supplies of the 12 dose Fortacin™ product manufactured by Pharmaserve to be released for sale in the UK via JJS Pharma. This agreement was however subsequently terminated in late November 2017 when the European Marketing Authorisation of Fortacin™ was transferred to Recordati on 2 November 2017 (as detailed below).

In addition, submission of periodic safety update reports (PSURs) have been completed at six-monthly intervals. These evaluate reports of adverse events/reactions following use of either of the drug substances and are used by EMA to assess the overall benefit/risk profile of the product, which has remained positive.

On 2 November 2017, Plethora received a favourable Commission Implementing Decision from the European Commission on the proposed transfer of the European Marketing Authorisation of Fortacin™ to Recordati, from Plethora.

This is the final procedural step in the European Marketing Authorisation transfer process and means that the transfer is now effective, with Recordati the new European Marketing Authorisation holder, which it is required to carry out its marketing and distributions obligations under the Amended and Restated Licence Agreement (as detailed below). Importantly, receipt of the European Commission Decision is the trigger for the start of a six-month implementation period, during which all obligations and responsibilities for the European Marketing Authorisation will transfer from Plethora to Recordati.

Submission of the renewal application has been completed by Recordati in advance of the submission deadline of 19 February 2018, 9 months prior to the 5-year anniversary of the date of notification of the European Commission (EC) decision granting the original marketing authorisation (MA).

CEO'S REPORT

PLETHORA (Continued)

The Recordati Amended and Restated Licence Agreement

On 3 October 2017, the Amended and Restated Licence Agreement and the Amended Development, Manufacturing and Supply Agreement were signed. The Group has received EUR 4 million from Recordati. Following the first commercial sale of Fortacin™ in each of Italy, France, Spain, Germany and Portugal, a total of EUR 4 million (or approximately US\$4.91 million or HK\$38.30 million) was duly received by the Group from Recordati during the period from 5 March to 23 March 2018, without any withholding as the three manufactured batches at 380L scale have come back within specification, as previously reported.

Marketing Authorisation in Hong Kong and Macau

The Group has recently submitted applications to the Hong Kong Department of Health Drug Office and the Macau Government Health Bureau to acquire import licences to allow for the sale of Fortacin™ in Hong Kong and Macau. The process for obtaining such marketing authorisation is relatively straight forward and will rely on presentation of the same dossier of information that allowed Fortacin™ to be approved for sale by the EMA. This means that no further clinical trials or supplemental data gathering should be required and approval should be granted on the strength of Plethora's existing EMA documentation.

The time frame for the Hong Kong Department of Health approval process is expected to be between 18 and 24 months. The Macau Health Bureau approval process is considerably shorter, and is expected to be completed within 6 to 12 months.

Commercial Partners

Plethora remains in active discussions with possible commercial partners for the sale and distribution of Fortacin™ in the remaining key markets of China, North America, Latin America and the Asia Pacific regions. Plethora will continue to work closely and diligently with its commercial partners and will keep shareholders and potential investors informed of any new developments as and when they occur.

New Drug Application with FDA

Plethora continues to make positive progress with the FDA on its NDA for Fortacin™. Following on from the Company's meeting with the FDA on 9 August 2017, a pathway has been developed for submitting the NDA. This will involve, among other things, a double blinded placebo pilot study clinical trial that is designed to support the measurement properties of the Premature Ejaculation Bothersome Evaluation Questionnaire ("PEBEQ™") (i.e. the validation and reliability assessments for the PEBEQ™), which is being developed per FDA Guidance and with FDA input. The pilot study will take approximately 12 months to complete.

Following a positive completion of this pilot study and receiving input from the FDA, Plethora will undertake a phase III double blinded placebo clinical trial and on completion the data will be submitted to the FDA. It is estimated that the clinical trial will take approximately 12 months to complete.

CEO'S REPORT

PLETHORA (Continued)

Trading Update for the Financial Year Ended 31 December 2017

Plethora recorded an operating profit of GBP 1.68 million (or approximately US\$2.16 million) for the financial year ended 31 December 2017 (2016: loss of GBP 6.63 million (or approximately US\$8.99 million)), excluding the amortisation cost of an intangible asset, Fortacin™, and the tax credit in respect of the deferred tax liability.

The operating profit for the financial year ended 31 December 2017 included the milestone income of GBP 4.09 million (or approximately US\$5.27 million) (2016: nil) which being offset somewhat by: (i) R&D costs related to the regulatory and commercial manufacturing scale up activities of Fortacin™ of GBP 1.91 million (or approximately US\$2.46 million) (2016: GBP 2.92 million (or approximately US\$3.96 million)); and (ii) administrative expenses of GBP 0.40 million (or approximately US\$0.52 million) (2016: GBP 2.61 million (or approximately US\$3.54 million)).

Underlying R&D costs and administrative expenses for the financial year ended 31 December 2017 were broadly lower than the Board's expectations, before adjustments being made to account for non-cash related share option costs. R&D costs were driven by the project to complete the development and commercial manufacturing scale up activities with the Company's manufacturing partners. Manufacturing set up costs are expected to fall significantly following the year ended 31 December 2017, but the overall level of R&D expenditure is expected to be increased as the FDA approval process begins to gather pace in 2018 and 2019.

On the basis that all R&D expenditure is expended, there were no significant balance sheet movements to comment upon during the financial year ended 31 December 2017. As at 31 December 2017, Plethora had cash resources of GBP 57,000 (or approximately US\$77,000) (31 December 2016: GBP 156,000 (or approximately US\$211,000)), with ongoing financial support being provided by the Group.

Outlook

Now that the commercial manufacturing scale up activities work on the 12 dose 1 can is behind us and the first commercial sales from Recordati to wholesalers in the first five European countries began in February/March 2018, we are devoting our efforts with Recordati to a successful commercial launch in other countries in Europe in the second part of 2018, completing our clinical trial work and submitting our NDA with the FDA and bringing Fortacin™ to market through other new strategic commercial partners in the remaining key markets of China, the Asia Pacific region, the US and Latin America.

CEO'S REPORT

THE DIABETIC BOOT COMPANY LIMITED (“DIABETIC BOOT”)

During the year ended 31 December 2017, the application of a new product specific code from the U.S. Centers for Medicare & Medicaid Services (“**Medicare**”) for PulseFlowDF by Diabetic Boot was rejected. As management expects Medicare to require additional clinical data and justification of product need in the US market before granting a code, there is no definite timeline to do so. In addition, in view of the recurring operating losses of Diabetic Boot, the Directors of the Company consider that indicators of impairment existed in respect of the investment in Diabetic Boot and accordingly, an impairment loss of US\$1,875,000 has been recognised in profit or loss for the Group's interests in Diabetic Boot for the year ended 31 December 2017.

VENTUREX RESOURCES LIMITED (“VENTUREX”)

The Company actively monitored and maintained its strategic position in Venturex, representing approximately 16.32% of its issued share capital, which for the twelve months ended 31 December 2017, booked a marked-to-market gain of US\$4.41 million.

- During 2017, Venturex reported considerable progress towards development of its planned copper zinc project in Western Australia. This has included advancing its corporate strategy to validate the extent of the Sulphur Springs orebody and previously reported project economics.
- Completion of a drilling program which has allowed the company to definitively show the presence of a high-grade zinc and copper deposit, supported by strong assay results.
- Such results show shallow mineralisation at Sulphur Springs which will allow for completion of a pending update of the Sulphur Springs resource estimate.
- Once completed, this update should underpin Venturex's ability to target a decision to mine by mid-2018.
- The 2017 drilling programme focused on in-fill drilling the western portion of the high-grade Inferred Resource, located towards the top of the Sulphur Springs orebody. The final drilling results will serve to further de-risk the Sulphur Springs mine plan.

Importantly, Venturex has made progress towards demonstrating the continuity of high-grade copper mineralization and has also identified a previously unrecognised zinc-rich ore. The Company's investment in Venturex should represent substantial value in the event of expected strong copper and zinc prices during 2018 and continued positive news flow as management continues to advance the Sulphur Springs project.

CEO'S REPORT

REVENUE AND PROFIT

The Company recorded a loss attributable to the shareholders of the Company of US\$27.36 million in 2017 (2016: US\$2.46 million).

The Group (revenue and fair value gain on financial instruments) recorded a gain of US\$9.49 million (2016: US\$3.44 million).

The Group's associate, Diabetic Boot, contributed a share of loss of US\$1.07 million for the year ended 31 December 2017.

The main elements of the loss are analysed as follows:

| | US\$ million |
|---------------------------------------------------------------|----------------|
| Milestone income | 5.27 |
| Amortisation of an intangible asset, Fortacin™ | (28.05) |
| Research and development expenditure incurred by Plethora | (2.46) |
| Fair value gain on financial instruments | 4.26 |
| Impairment loss on interest in an associate | (1.88) |
| Tax credit | 2.98 |
| Operational expenses | (7.48) |
| Total loss attributable to shareholders of the Company | (27.36) |

FINANCIAL POSITION

Shareholders' equity decreased by 12.43% to US\$158.82 million as at 31 December 2017 from US\$181.37 million as at 31 December 2016. The decrease was mainly due to: (i) the net loss attributable to shareholders of the Company of US\$27.36 million for the year ended 31 December 2017; and (ii) the decrease of foreign currency exchange reserve of US\$0.14 million; and this was offset somewhat against: (iii) the increase of share capital and share premium of US\$4.95 million by issuing shares through a placing and top-up subscription.

The Group's assets comprised: (i) an intangible asset of US\$165.13 million; (ii) listed and unlisted investments of US\$10.70 million; (iii) cash and bank balances of US\$2.25 million; and (iv) other assets and receivables of US\$0.74 million.

The Group's liabilities comprised: (i) deferred tax liabilities of US\$16.51 million; and (ii) payables and accruals of US\$3.54 million.

CEO'S REPORT

STRATEGIC PLAN

The Board and the Company's senior management play an active role in the Company's strategy development and planning process. The Chief Executive Officer regularly interacts with the Board in respect of the strategic plan and direction of the Company, during which meetings the Chief Executive Officer seeks and is provided input in respect of the proposed priorities and initiatives previously discussed and agreed with senior management, aiming at developing an agreed approach for the Company to generate and preserve its long-term value, while agreeing shorter term priorities and objectives. In addition, the risks associated with the current operations and strategy of the Company are continually being tested by way of an internal audit process conducted through an independent service provider, with the aim of identifying ways in which the Company can better identify and manage its risks.

In order to generate or preserve value over the longer term, the Group is committed to:

- divesting of non-core assets and investments to enable the Company to pursue growth and opportunistic investments in the healthcare and life sciences sector;
- leverage off our expert international and local teams to tackle difficult markets, deliver results and achieve global recognition; and
- utilise the Company's Hong Kong listing through strong liquidity and access to international capital markets, together with maintaining our corporate governance and social responsibility standards in line with the policies set down by The Stock Exchange of Hong Kong Limited and best practice.

The Company is committed to creating shareholder value and returns through accretive acquisitions and returning surplus capital to shareholders by way of an effective dividend policy and share repurchase programme.

The current strategy of the Group can be seen in the latest Company presentation available on the Company's website (www.regentpac.com).

FUNDING

As at 31 December 2017, the Group had US\$2.25 million in cash that represented 1.42% of its total shareholders' equity, which did not take into account the Group's holding of securities of financial assets at fair value through profit or loss that amounted to US\$8.78 million.

GEARING RATIO

No gearing ratio (being long-term debts over total equity and long-term debts) was calculated as there was no long-term debt as at 31 December 2017.

CEO'S REPORT

CONTINGENT LIABILITIES

Save as those disclosed in notes 27 and 31 to the consolidated financial statements, the Group had no other material contingent liabilities as at 31 December 2017.

AUSTRALIAN TAX ON BCI SALE

As has been previously disclosed, the Company is currently in dispute with the Australian tax authorities in connection with a disposal by the Group of an investment in BC Iron Limited ("**BCI**"), a company listed on the Australian Securities Exchange. The Australian Taxation Office considered that capital gains tax was payable in the amount of approximately A\$11.85 million (or approximately US\$8.54 million at the then exchange rate between A\$ and US\$) (as amended down by way of an amended assessment on 7 September 2016 so as to include some additional costs associated with the Group's investment in BCI), which excludes interest that has accrued on this amount since 2 December 2013 (which, as at 2 January 2018, was approximately A\$5.41 million (or approximately US\$4.14 million at the then exchange rate between A\$ and US\$)). On 24 January 2013, the Company received orders from the Federal Court of Australia in relation to a notice of assessment issued by the Australian Taxation Office (as amended, the "**Assessment**"), which stated that the tax was due and payable on 2 December 2013 and provided that the Company could not remove from Australia or dispose of, deal with or diminish the value of its assets in Australia up to the unencumbered value of the amount assessed.

Following orders from the Federal Court of Australia, the Company has granted a specific security deed to the Commonwealth of Australia in respect of certain of the Company's holding of 518,103,930 shares in Venturix, 10,854,568 shares in Bannerman Resources Limited and 12,700,000 shares in Tigers Realm Coal Limited, of which the aggregate market value (as at 31 December 2017) was approximately A\$10.04 million (or approximately of US\$7.84 million) as security against the Assessment. In consideration for granting this security, the Commissioner of Taxation stayed recovery action in respect of the Assessment until the matter is resolved.

The Company has received independent tax advice that, based on a valuation of BCI's real property (including mining tenements) and non-real property assets, the Company has a basis for challenging the assessment in its entirety and, accordingly, there is no longer a provision in the Company's financial statements relating to this dispute. The Company has shared its independent tax advice with the Commissioner of Taxation. The Company has received a copy of a report produced by an external consultant for the Commissioner of Taxation and understands that there are a number of matters of material disagreement, or on which a materially different view is held, between the Commissioner of Taxation's external consultant and the Company and its Australian tax advisers.

CEO'S REPORT

As previously disclosed, the Company had envisaged entering into a formal dispute resolution process with the Commissioner of Taxation. This process has now taken place, and the parties have, to date, been unable to reach agreement as to an appropriate way in which to resolve the matter, culminating in the Commissioner of Taxation determining the Company's previously lodged objection against it on 1 September 2016. The Company's position has not changed and it remains resolute in that it will continue to challenge the assessment in its entirety, consistent with expert and independent Australian advice received throughout, and has lodged an appeal against the Commissioner of Taxation's determination of the objection in the Australian Federal Court. While a trial date has not yet been set, the matter is now set to be litigated through the Australian court system. The Company is continuing to take advice as to the next appropriate steps from its Australian advisers. The aforementioned security over the above mentioned Australian securities held by the Company, previously granted to the Commissioner of Taxation, remains.

Jamie Gibson

Chief Executive Officer

23 March 2018

DIRECTORS' REPORT

The Directors (the “**Directors**” or the “**Board**”) of Regent Pacific Group Limited (the “**Company**” and collectively with its subsidiaries, the “**Group**”) are pleased to submit their report and the audited financial statements of the Company and the Group for the year ended 31 December 2017 (the “**Financial Statements**”).

PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding, and the Group's principal activities consist of investments in biopharma companies, resources and other corporate investments.

Principal activities of the respective subsidiaries of the Company during the year are set out in note 33 to the Financial Statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2017 are set out in the Consolidated Statement of Comprehensive Income on pages 109-110.

No interim dividend was paid for the years ended 31 December 2017 and 2016.

The Directors do not recommend the payment of a final dividend (2016: Nil).

DIRECTORS' REPORT

SUMMARY FINANCIAL INFORMATION

The results and the assets and liabilities of the Group for the current year and the last four financial years (extracted from the audited financial statements and reclassified as appropriate) are set out below:

Results:

| | 2017 US\$'000 | 2016 US\$'000 | 2015 US\$'000 | 2014 US\$'000 | 2013 US\$'000 |
|--------------------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Total income | 9,493 | 3,436 | (5,685) | (11,007) | (16,024) |
| Income less expenses before impairment | | | | | |
| losses and provision | (27,403) | (31,902) | (14,715) | (17,738) | (29,930) |
| Reversal of impairment | — | 364 | 1,386 | 250 | — |
| Impairment losses | (1,875) | (97) | (194) | (267) | (1,710) |
| Operating loss | (29,278) | (31,635) | (13,523) | (17,755) | (31,640) |
| Gain on disposal of an associate | — | — | 8,938 | — | — |
| Loss on deemed disposal of associate(s) | — | (5,805) | (3,560) | (6,017) | — |
| Gain from bargain purchase of an associate | — | 1,356 | — | 25,809 | — |
| Gain from bargain purchase of a subsidiary | — | 31,686 | — | — | — |
| Share of results of associates | (1,067) | (831) | (1,193) | (10,604) | (420) |
| Loss before taxation | (30,345) | (5,229) | (9,338) | (8,567) | (32,060) |
| Tax credit | 2,982 | 2,765 | — | — | 6,334 |
| Loss for the year | (27,363) | (2,464) | (9,338) | (8,567) | (25,726) |
| Non-controlling interests | 4 | 4 | 5 | 4 | 90 |
| Loss attributable to shareholders of the Company | (27,359) | (2,460) | (9,333) | (8,563) | (25,636) |

DIRECTORS' REPORT

SUMMARY FINANCIAL INFORMATION (Continued)

Assets and liabilities:

| | 2017 US\$'000 | 2016 US\$'000 | 2015 US\$'000 | 2014 US\$'000 | 2013 US\$'000 |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Property, plant and equipment | 63 | 84 | 48 | 108 | 199 |
| Intangible asset | 165,131 | 193,178 | 3,441 | — | — |
| Interests in associates | 2 | 3,055 | 17,295 | 30,206 | 9,134 |
| Available-for-sale financial assets | 1,925 | 1,726 | 5,367 | 2,130 | 2,334 |
| Current assets | 11,710 | 8,477 | 16,684 | 19,871 | 50,972 |
| Total assets | 178,831 | 206,520 | 42,835 | 52,315 | 62,639 |
| Current liabilities | (3,543) | (5,874) | (3,790) | (3,604) | (3,742) |
| Non-current liabilities | (16,513) | (19,318) | — | — | — |
| Total liabilities | (20,056) | (25,192) | (3,790) | (3,604) | (3,742) |
| Net assets | 158,775 | 181,328 | 39,045 | 48,711 | 58,897 |

BUSINESS REVIEW

Fair review of the Company's business

The Company, a limited liability company incorporated under the laws of the Cayman Islands whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HK Stock Exchange") and are also traded on the Open Market (Freiverkehr) of the Frankfurt Stock Exchange, is a diversified investment group currently holding various corporate and strategic investments across the healthcare and life sciences sectors, which has become its core focus, as well as legacy investments in the natural resources sector. The Company's headquarters are in Hong Kong and the Group (including subsidiaries but excluding associates) employed 19 employees as at 31 December 2017.

2017 was another positive year for the Group, having consolidated the acquisition of Plethora Solutions Holdings plc ("Plethora") and laid the necessary groundwork for the landmark commercial launch of Fortacin™ in France, Germany, Italy, Spain and Portugal scheduled for March 2018, followed by the launch in Greece, Romania, Czech Republic, Slovak Republic and Poland in the second half of 2018 and in the rest of Europe, Russia, the Commonwealth of Independent States (CIS) and selected countries of North Africa in the coming years.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Fair review of the Company's business (Continued)

During the year of 2017, the Group recorded a loss attributable to shareholders of the Company of US\$27.36 million, which was mainly attributable to: (i) an amortisation charge of US\$28.05 million on the intangible asset, being Fortacin™, a non-cash item; and (ii) the operating expenses of US\$8.85 million; while being offset somewhat by: (iii) a milestone payment from Recordati S.p.A. ("**Recordati**") of US\$5.27 million; and (iv) a marked-to-market gain of US\$4.48 million in respect of the Company's equity portfolio of financial assets at fair value through profit or loss ("**FAFVPL**").

From a capital management standpoint, and as announced on 29 March and 7 April 2017, the Company successfully undertook a placing and top-up subscription with BOCI Asia Limited, as placing agent, and James Mellon, as vendor, pursuant to which the Group placed 100,000,000 shares at the placing price of HK\$0.405 (or approximately US\$0.052) per share to raise approximately HK\$40.5 million (or approximately US\$5.21 million), gross proceeds, and approximately HK\$38.48 million (or approximately US\$4.95 million), net proceeds. It was announced that the net proceeds would be used to: (i) fund the New Drug Application ("**NDA**") process with the US Food and Drug Administration ("**FDA**"), together with the continued commercial manufacturing scale up of Fortacin™, of which US\$2.46 million of the net amount raised were expended as at 31 December 2017; (ii) fund the build out of the Group's healthcare and life sciences platform by investing in further investments in the sector, of which US\$0.2 million of the net amount raised were expended as at 31 December 2017; and, in respect of the balance: (iii) provide general working capital for the Group, of which US\$2.29 million of the net amount raised were expended as at 31 December 2017. This capital raising put the Group in the best possible position ahead of the launch of Fortacin™ in Europe in March 2018.

Following the Group's successful negotiations with Recordati regarding certain revisions to the commercial terms set out in the previous licence agreement entered into with Recordati in respect of the rights to commercialise Fortacin™, including making the Group (as at 31 December 2017) eligible to receive remaining payments of up to EUR 37 million (or approximately US\$44.42 million) plus royalties after hitting certain milestones related to the European roll-out, progress towards commercialisation has gathered strong momentum and the Group is optimistic that the European roll-out by Recordati will commence in March 2018, as previously announced. In this regard, Recordati has placed its initial purchase order for, and manufacturing has been completed for this initial purchase order, in respect of the upcoming commercial launch of Fortacin™ in France, Germany, Italy, Spain and Portugal in March 2018, followed by the launch in Greece, Romania, Czech Republic, Slovak Republic and Poland in the second half of 2018 and in the rest of Europe, Russia, the Commonwealth of Independent States (CIS) and selected countries of North Africa in the coming years.

In parallel with the European roll-out effort of Fortacin™, the Group has further progressed the preparation of the NDA to the FDA, and remains in active discussions with possible commercial partners for the sale and distribution of Fortacin™ in the remaining key markets of China, North America, Latin America and the Asia Pacific regions.

The Group is continuing to make positive progress with the Hong Kong Department of Health Drug Office and the Macau Government Health Bureau to acquire import licences to allow for the sale of Fortacin™ in Hong Kong and Macau.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Fair review of the Company's business (Continued)

During the period, the Company also continued to successfully execute its stated divestment programme of non-core legacy investments as and when acceptable opportunities arose. In this respect, the Company successfully disposed of its entire interest in Condor Gold plc for an aggregate consideration of approximately US\$2.51 million in cash, which was a discloseable transaction of the Group.

Shareholders' equity decreased by 12.43% to US\$158.82 million as at 31 December 2017 from US\$181.37 million as at 31 December 2016.

As at 31 December 2017, the Company had no debt, having cash and listed and unlisted securities of US\$11.03 million.

With a streamlined focus and sensible capital structure, the Company remains excited about the future prospects for the Group and its shareholders, and will: (i) continue to pursue the successful commercialisation of Fortacin™ as quickly as possible, with the European roll-out with Recordati set to launch in March 2018, as well as in the remaining key markets of China, the US, Latin America and Asia Pacific regions; and (ii) continue with its existing strategy of pursuing strategic and value-led investments in the healthcare and life sciences sectors.

A review of the Group's associated investments, together with the results of its main listed investments, are set out in the CEO's Report contained in this annual report.

Significant post balance sheet events

There were no significant post balance sheet events to report.

Likely future development of the Company's business

As would be appreciated, following the acquisition of Plethora in 2016, much of the Group's attention will continue to be directed towards pursuing the successful commercialisation of Fortacin™ as quickly as possible with strategic commercial partners, not only in Europe, which is scheduled to take place in March 2018, but also in the remaining key markets of China, the US, Latin America and Asia Pacific regions.

While the initial focus has been on the upcoming commercial launch in Europe, set for March 2018, the Company believes that Asia Pacific, particularly China, is likely to become a key component to the eventual marketing and distribution strategy for Fortacin™ and the Company's Hong Kong office will provide an excellent base from which to manage the controlled launch of the product following receipt of relevant regulatory approvals. Following the commercial launch of Fortacin™ in France, Germany, Italy, Spain and Portugal in February and March 2018, the next focus will be on the commercial launch in Greece, Romania, Czech Republic, Slovak Republic and Poland in the second half of 2018 and in the rest of Europe, Russia, the Commonwealth of Independent States (CIS) and selected countries of North Africa in the coming years through the Group's commercial partner, Recordati, jurisdictions in which it already has secured approval from the European Medicines Agency ("EMA").

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Likely future development of the Company's business (Continued)

A single aligned management team, with deep knowledge of the industry and product, was created by the acquisition of Plethora in 2016. Led by Jamie Gibson, the enlarged Group will continue to combine Plethora's scientific expertise, under Michael Wyllie's leadership, with the Company's corporate, management and commercial skills.

The Company strongly supports Plethora's development strategy for Fortacin™ and will continue progressing Fortacin™ to market through strategic commercial partners, not by itself, and therefore it is intended that the Group will continue to outsource sales, marketing and distribution functions to selected partners to maximise the commercial potential of the product. This is a differentiating factor from traditional start-up companies in the pharmaceutical sector.

As stated above, Plethora has obtained the marketing approval from the EMA in November 2013 for marketing Fortacin™ within the EU. The Group will continue to dedicate the necessary resource, with the assistance of its US regulatory consultant, to pursue approval from the FDA in the US as quickly as possible by diligently working through the various regulatory steps, next being the submission of a NDA with the FDA. In this respect, it is expected that the NDA will be filed with the FDA in 2020, and in accordance with mandates set forth by the Prescription Drug User Fee Act (PDUFA date), the FDA will be required to respond to the dossier within a 10-month timescale, which would facilitate approval in the US by the end of 2021 with a commercial launch shortly thereafter.

All other regulatory approvals for territories outside the US, EU, Europe (non-EU countries), Russia, Commonwealth of Independent States, Turkey and certain North African countries will be applied for by the Group's licensing partners for these territories when licensing agreements have been entered into.

The Group is continuing to make positive progress with the Hong Kong Department of Health Drug Office and the Macau Government Health Bureau to acquire import licences to allow for the sale of Fortacin™ in Hong Kong and Macau, the approval processes for which are expected to take between 18 and 24 months, for Hong Kong, and between 6 to 12 months, for Macau.

If a marketing approval is not obtained in any of these countries, the Group still intends for Recordati, Plethora's licensing partner for the EU, Russia, Commonwealth of Independent States, Turkey and certain North African countries, to launch Fortacin™ in those jurisdictions in which Plethora then has appropriate regulatory approval, currently for the EU.

The Group's longer term vision is, through its subsidiary, Plethora, to managing economic rights and entitlements flowing from the sales of Fortacin™ by strategic commercial partners (through licensing agreements). The Company and Plethora will not be manufacturing or marketing Fortacin™, as these operational aspects have been and will continue to be completely outsourced to selected commercial partners, and will instead be managing its investment by way of managing the flow of licensing and royalty payments that flow from sales. For these reasons, the Group does not plan to make any fundamental changes to Plethora's business, and the existing business of the Group, being that of an investment company having its core focus on the healthcare and life sciences sectors, would continue unimpeded.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Likely future development of the Company's business (Continued)

With a streamlined focus and sensible capital structure, the Company remains excited about the future prospects for the Group and its shareholders, and will: (i) continue to pursue the successful commercialisation of Fortacin™ as quickly as possible, not only in Europe with Recordati, but also in the remaining key markets of China, the US, Latin America and Asia Pacific regions; and (ii) continue with its existing strategy of pursuing strategic and value-led investments in the healthcare and life sciences sectors.

A summary analysis of the performance and position of the Company's business for the year ended 31 December 2017 is set out below:

| | For the year ended 31 December 2017 US\$'000 | For the year ended 31 December 2016 US\$'000 | Increase/ (Decrease) in absolute value % |
|--------------------------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------|
| Fair value gain/(loss) on financial instruments | | | |
| Unrealised gain on FAFVPL | 4,484 | 2,874 | 56.02 |
| Realised (loss)/gain on disposal of FAFVPL | (42) | 175 | N/A |
| Realised gain on disposal of available-for-sale ("AFS") financial assets | — | 677 | (100.00) |
| Realised loss on derivative financial instruments | — | (459) | (100.00) |
| Unrealised loss on derivative financial instruments | (186) | (143) | 30.07 |
| | 4,256 | 3,124 | 36.24 |

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Likely future development of the Company's business (Continued)

The fair value gain on financial instruments was US\$4,256,000 for the year ended 31 December 2017 (2016: US\$3,124,000). The significant improvement was mainly due to the unrealised gain on FAFVPL of US\$4,484,000 for the year ended 31 December 2017 (2016: US\$2,874,000).

| | For the year ended 31 December 2017 US\$'000 | For the year ended 31 December 2016 US\$'000 | Increase/ (Decrease) in absolute value % |
|-----------------------------|----------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------|
| AFS financial assets | | | |
| As at 1 January | 1,726 | 5,367 | (67.84) |
| Additions | 199 | 819 | (75.70) |
| Disposals | — | (1,799) | (100.00) |
| Reclassification | — | (2,661) | (100.00) |
| As at 31 December | 1,925 | 1,726 | 11.53 |
| FAFVPL | | | |
| As at 1 January | 7,386 | 8,146 | (9.33) |
| Additions | — | — | — |
| Disposals | (3,092) | (3,634) | (14.91) |
| Change in fair value | 4,484 | 2,874 | 56.02 |
| As at 31 December | 8,778 | 7,386 | 18.85 |

The investment in the AFS financial assets increased by 11.53% to US\$1.93 million as at 31 December 2017 from US\$1.73 million as at 31 December 2016. It was mainly due to the new investment in Visulytix Limited of approximately US\$199,000.

The investment in FAFVPL increased by 18.85% to US\$8.78 million as at 31 December 2017 from US\$7.39 million as at 31 December 2016. It was mainly due to: (i) the unrealised gain of US\$4.48 million, which was offset somewhat by: (ii) the cost of disposal of US\$3.09 million.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Likely future development of the Company's business (Continued)

Funding

As at 31 December 2017, the Group had US\$2.25 million in cash that represented 1.42% of its total shareholders' equity, which did not take into account for the Group's holding of securities of the FAFVPL that amounted to US\$8.78 million.

Gearing ratio

No gearing ratio (being long-term debts over total equity and long-term debts) was calculated as there was no long-term debt as at 31 December 2017.

The Group's environmental policies and performance and compliance with relevant laws and regulations

The Group operates two offices, its headquarters in Hong Kong and an office in the UK, and the Group (including subsidiaries but excluding associates) employed only 19 employees as at 31 December 2017. Given its relatively small work force and that it is only an investment company, the Group's environmental footprint is very limited. That said, the Directors believe that the Group's procedures comply with applicable regulations. Moreover, the Group has a number of policies and procedures in place to promote compliance with all relevant laws and regulations, the veracity and adherence to which is independently audited on an annual basis.

Reliance on key personnel, customers and suppliers

In common with many other smaller companies, the Group's future success will be in part dependent on its ability to retain and attract suitable senior and qualified personnel, as well as managing relationships with key customers and suppliers. While the loss of any of these key personnel or the breakdown in the relationships with key customers and suppliers may have a material adverse effect on the future of the Group's business, the Group is comfortable that such risks are being appropriately managed.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company

Below are the principal risks and uncertainties in respect of the Group. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to the Directors, or which they currently deem immaterial, may also have an adverse effect on the Group's operating results, financial condition and prospects. If any of the risks described below actually occur, the Group may not be able to conduct its business as currently planned and its financial condition, operating results and cash flows could be seriously harmed. In that case, the market price of the Company's shares could decline, and all or part of an investment in the shares could be lost.

Any references below to the Company's or the Group's business or products (or any risks in connection with such business or products) include the business or products (and risks in connection with such business or products) of investee companies (including Plethora, in particular Fortacin™) in which the Company or Group has invested in the healthcare and life sciences sectors.

Contingent liability in respect of Australian Capital Gains Tax

As previously disclosed, the Company is currently in dispute with the Australian Taxation Office in connection with the disposal by the Group of an investment in BC Iron Limited ("BCI"), a company listed on the Australian Securities Exchange, in respect of a notice of assessment issued to the Company (the "Assessment", as amended), which stated that capital gains tax was due and payable by the Company on 2 December 2013 in the amount of approximately A\$11.85 million (equivalent to approximately US\$8.54 million) (as amended down by way of an amended assessment on 7 September 2016 so as to include some additional costs associated with the Group's investment in BCI), which excludes interest that has accrued on this amount since 2 December 2013 which, as at 2 January 2018, was approximately A\$5.4 million (equivalent to approximately US\$4.14 million). The exchange rates used in this paragraph are the historic exchange rates at the relevant time.

While the Company has received independent Australian expert advice that it has grounds to challenge the Assessment in its entirety, in the event that the dispute is not resolved to the Company's satisfaction and the Company is required to pay some or all of the Assessment in the near term, such payment will have a material and adverse impact of the Group's financial condition, results of operations and prospects.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

The disposal of legacy investments may face liquidity constraints and/or may decline in value

The Company is a diversified investment group currently holding various corporate and strategic investments across the healthcare and life sciences sectors, as well as legacy investments in the natural resources sector. Where possible and practicable, the Company intends to sell its remaining non-healthcare and non-life sciences assets ("**Non-Core Assets**") in the near future and focus all its attentions on its new healthcare and life sciences strategy. The liquidity of a security relates to the ability to readily dispose of that security and the price to be obtained upon disposition of the security, which may be lower than the prevailing market price. The Company may not be able to dispose of illiquid Non-Core Assets in a timely fashion or at their expected prices. Additionally, a longer time period may lead to the market value of an investment declining before the Company is able to complete a disposal which may have a material and adverse effect on the Group's business, financial condition, trading performance and prospects.

The Company is exposed to fluctuating prices of crude oil, gold, uranium, copper, zinc and coal

The Company is exposed to fluctuating prices of crude oil, gold, copper, zinc, uranium and coal in relation to its Non-Core Assets. The prices of crude oil, gold, copper, zinc, uranium and coal are affected by supply and demand, both globally and regionally. Factors that influence supply and demand include operational issues, natural disasters, weather, political instability, conflicts, economic conditions and actions by major commodity producing countries. Price fluctuations could have a material adverse effect on the value of the Non-Core Assets in the natural resources sector. The Company's assets have in the past been impaired, and there could be impairments in the future which may have a material and adverse effect on the Group's business, financial condition, trading performance and prospects.

Plethora depends to a material extent on the success of its lead product candidate, Fortacin™, which it is developing for the treatment of premature ejaculation. If Plethora is unable to obtain regulatory approval beyond the EU, or to commercialise Fortacin™, or experiences significant delays in doing so, this would have a material adverse effect on its business

Plethora has invested a significant portion of its financial and other resources in the development of Fortacin™ for the treatment of premature ejaculation. As a result of the acquisition of Plethora, the Group's prospects, financial condition and results of operations for the foreseeable future, including its ability to achieve profitability, will depend heavily on whether Fortacin™ is successfully developed and commercialised. The success of Fortacin™ will depend on a number of factors, including those generally affecting biopharmaceutical products, and more specifically: the successful manufacturing of Good Manufacturing Practice batches of the reduced fill can by its manufacturing partners, being Pharmaserve (North West) Limited and/or Catalent Pharma Solutions, LLC (RTP); the receipt of the NDA from the FDA; the successful negotiation of 'out licensing' agreements for territories outside of Europe; and the successful launching of commercial sales of Fortacin™ by Plethora's commercials partners at expected prices.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Commercialised product risk

The businesses of the Group will depend both on the successful commercialisation of existing but yet to be commercialised products and further out-licensing and/or development, obtaining and maintaining of marketing authorisations and subsequent successful commercialisation of any new products. There can be no assurance in respect of anticipated product sales from products yet to be marketed. Product sales may be affected by adverse market developments, including the market for a particular product not developing in the manner predicted by the Company, downward pressure on pricing from governments and other third parties to limit healthcare costs, increased competition and the withdrawal of a product for regulatory reasons or otherwise. Failure to commercialise any new products or existing products or adverse market developments could adversely affect the Group's growth prospects, financial condition and results of operations.

Development risk

The Group currently has a number of products for which marketing authorisations have been, will be or are being, sought in various territories. The Group anticipates filing applications to obtain further marketing authorisations in the future. There can be no assurance that any products for which marketing authorisation application is made will receive such authorisation and price reimbursement (if applicable) in those territories for which marketing authorisations are sought, or if they do, that they will be successfully commercialised in those territories. There can also be no assurance that such marketing authorisations will be obtained in a timely manner.

The Group's future success will depend in part on its ability to identify products and product candidates for acquisition and licensing and the development and commercialisation of those products and product candidates. There can be no assurance that the Group will be successful in identifying suitable new products and product candidates for commercialisation or that it will succeed in acquiring products or product candidates on commercial terms. Any failure of these products to obtain marketing authorisation, or to be successfully commercialised, could have a material adverse effect on the Group's financial condition, results of operations and prospects.

Reliance on third parties

The strategy of the Group is to use partners to assist in commercialising its products in the largest markets. Therefore, the Group will be, and will continue to be, reliant on third parties for the successful commercialisation of its products. There can be no assurance that the Group will be able to secure such partners or that, once secured, the Group's partners will continue to commit the necessary resources to achieve commercial success. The Group's ability to penetrate the markets that they serve is highly dependent upon the level of customer service provided by, and the quality and breadth of the other product lines carried by, its commercial partners, which may change from time to time, and over which the Group has little or no control.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Reliance on third parties (Continued)

The Group is reliant upon third parties for the manufacture of raw materials and components of current and future products. Its ability to procure their manufacture in a manner which complies with regulatory requirements may be constrained, and its ability to develop and deliver such material on a timely and competitive basis may be adversely affected.

From time to time the Group will rely on third-party contract research organisations to conduct its clinical trials. If these third parties do not successfully carry out their contractual duties or regulatory obligations, the Group's clinical trials may be extended, delayed, suspended or terminated, and the Group may not be able to obtain regulatory approval for or successfully commercialise its products.

Reimbursement and product price uncertainty

In some territories, the Group's products may be or become subject to a regime of reimbursement and/or pricing by government health authorities, private health insurers or other organisations. In some territories, the pricing of pharmaceutical products seeking reimbursement status is subject to government control. The government may fix the price according to set factors or may negotiate the prices of products. There is increasing pressure from governments and other third party payers to limit healthcare costs by limiting both the price level and reimbursement status for new products, and by refusing reimbursement status in some cases. There can be no assurance that when future price levels of targeted cost savings are set, the pricing of the Group's products will not be materially adversely affected.

The ability of the Group to commercialise its products successfully will depend, in part, on the extent to which reimbursement will be available from such authorities, private health insurers and other organisations. It is not certain that reimbursement status will be obtained for the Group's new products or that the Group will maintain or obtain satisfactory price levels for such products.

Failure to obtain or maintain reimbursement for any products could have a material adverse effect on the Group's financial condition and results of operations.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Achievement of commercial success or acceptance

The Group's products under development are targeted at medical conditions for which a number of marketed products already exist and where other companies also have new products in development. The products may also experience competition from the products of other companies which have greater research, development, marketing, financial and personnel resources than the Group has or will have.

Market acceptance of the Group's products under development will largely depend on the Group's ability to demonstrate their relative safety, efficacy, cost-effectiveness and ease of use. The Directors believe that the Group's products will not be used unless it is proven that, based on experience, clinical data and recommendations from opinion leaders, these products are both safe and effective.

The products of the Group may include new technologies that have not been previously used and must compete with more established treatments currently accepted as the standard form of treatment. The attributes of some of those products may require some changes in treatment techniques that have become standard within the medical community, and there may be resistance to change. Many clinicians may not switch to the products of the Group until there is sufficient, long-term clinical evidence to convince them to alter their existing treatment methods. In addition, clinicians may be slow to change their medical treatment practices because of perceived liability risks arising from the use of new products. Similarly, changes in attitudes towards forms of treatment amongst clinicians or patients may adversely affect the commercial prospects and success of the Group's products. Any failure to gain market acceptance of the Group's products could adversely affect the sales of its products and its ability to achieve profitability.

Manufacturing

The Group contracts out the manufacture of its current products and sales will depend upon, among other things, the continuance of suitable manufacturers being available to the Group on commercial terms.

The manufacture of the Group's products is subject to regulation and periodic inspection by various regulatory bodies for compliance with quality standards. There can be no assurance that the regulatory authorities will not, during the course of an inspection of existing or new facilities, identify what they consider to be deficiencies in meeting the applicable standards and request or seek remedial action that could interrupt or prevent the continued manufacture of the Group's products or significantly increase the cost of manufacturing such products. In addition, the Group is exposed to the risk of failure of the manufacturing facilities or production stoppages as a consequence of fire, equipment failure and other accidents. If such failure occurs, the Group could be exposed to non-production. Non-production could result in a material adverse effect on the Group's sales, financial condition, results of operations and prospects.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Competition

The specialty pharmaceutical industry is highly competitive. The competitors of the Group have and will continue to develop products and product candidates which directly compete with the Group's products. Competing products could prove to be superior treatment alternatives to any or all of the Group's products and/or product candidates, thus reducing or eliminating the Group's potential revenues from such product or products, or resulting in the decision to cease development of a product candidate. Even if the Group is successful in developing effective products, new products introduced after the Group commences marketing of any product may be safer, more effective, less expensive or easier to administer than the Group's products. Competitors may also enjoy a significant competitive advantage if they are able to achieve patent protection, obtain data or market exclusivity, market authorisations and/or commence commercial sales of their products before the Group. A further risk is that competitors can offer products of similar quality below the price level at which the Group can make an appropriate return. Since competitors of the Group may have significantly greater resources than the Group itself, or may be more advanced in the development of their products, the Group may not be able to compete successfully. This would have a material adverse effect on the Group's financial condition, results of operations and prospects.

Acquisitions and joint ventures

The Group has in the past made acquisitions and entered into joint ventures. The Group may enter into acquisitions, joint ventures or strategic alliances. There can be no guarantee that future cash flows will be sufficient to fund future acquisitions, joint ventures or strategic alliances which have not yet been identified by the Group.

The allocation of the price paid to acquire a business usually leads to the revaluation of its existing assets, as well as the identification and recognition of new intangible assets which result in additional amortisation expenses or, in subsequent years, in charges related to the impairment of redundant or overvalued assets. Furthermore, acquisitions and joint ventures may also result in costly and disruptive restructurings. These events have had, and similar events in the future may have, a material effect on the operating performance and financial situation of the Group and/or the price of the Company's shares.

Acquisitions involve numerous other risks relating to integration, including the failure to achieve the expected benefits and synergies, the diversion of management's attention from other business concerns and the loss of key employees. Joint ventures present the risk of conflicts of interest or strategy. Joint venture partners may also be unable to fulfil their obligations under the joint venture agreement or experience financial or other difficulties. If the Group is unable to manage all of these risks efficiently, it may be forced to incur extraordinary expenses or charges which may have an adverse effect on its financial condition, results, operations and prospects.

There can be no guarantee that in the future the Group will be able to source appropriate acquisitions to grow the business alongside its organic development.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Financing requirements and access to capital

The amount and timing of the expenditures required to carry out the product development activities of the Group are uncertain and will depend on numerous factors, some of which are outside the Group's control. Factors that could increase the Group's funding requirements include, but are not limited to:

- higher costs and slower progress than expected to develop products or obtain regulatory approvals;
- slower progress than expected in securing development and commercialisation partners for the Group's products; and
- costs incurred in relation to the protection of the Group's intellectual property.

Greater than expected expenditure requirements may materially and adversely affect the Group's financial results and their ability to introduce new products profitably.

Protection of patents and proprietary rights

The ability of the Group's products to compete effectively with those developed by other companies will depend, amongst other things, on the Group's ability to secure and enforce valid patents and other proprietary rights. No assurance can be given that any patent applications will proceed to grant or that any granted patents will be enforceable and, if enforceable, will be sufficiently broad in their scope to provide commercially valuable protection for the Group's products. Even if the Group is able to secure enforceable, commercially valuable, intellectual property protections, the costs associated with enforcement against a third party infringing the Group's rights may be substantial, and the outcome of any associated litigation may be uncertain.

The commercial success of the Group's products will also depend upon non-infringement of patents granted to third parties who may have filed applications or who have obtained, or may obtain, patents which might inhibit the Group's ability to develop and exploit its own products. As patent applications are not normally published until 18 months after the date of priority applications (or, in the case of the US, until grant), the Group cannot be certain that it was the first to make the innovation covered by each pending application. If this is the case, the Group may need to obtain alternative technology or reach commercial terms on the licensing of other parties' intellectual property rights. There can be no assurance that the Group will be able to obtain such alternative technology or be able to license, on commercially acceptable terms or at all, such intellectual property rights.

In addition, third parties may allege infringement by the Group of their intellectual property. Even if the Group is ultimately able to successfully defend itself against such allegations, the costs associated with such defence may be significant and the Group may endure a long period of uncertainty regarding the outcome of such allegations.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Protection of patents and proprietary rights (Continued)

The commercial success of some of the Group's products will also depend to a degree on being able to use and enforce certain trademarks. There can be no assurance that these trademarks will not be challenged and, if challenged, that the trade mark would not be found to be invalid.

The commercial success of the Group's products may also depend on third parties not enforcing their trade mark rights. If a third party is successful in enforcing its trade mark, the Group, or its licensees, may need to abstain from using a mark, obtain an alternative mark or reach commercial terms on the in-licensing of such third parties' intellectual property rights. There can be no assurance that the Group, or its licensees, will be able to obtain such alternative mark or be able to license, on commercially acceptable terms or at all, such intellectual property rights.

To develop and maintain its competitive position, the Group also relies on unpatented trade secrets and improvements, unpatented confidential knowhow and continuing technological innovation. The trade secrets and confidential knowhow represent the practical knowledge base which the Group has acquired in developing its products. Trade secrets and knowhow can only be protected by keeping the information secret and confidential and the Group achieves this with security measures it considers to be reasonable, including confidentiality agreements with its collaborators, consultants and employees. The Group may not have adequate remedies if these agreements are breached, and the Group's competitors may independently develop any of the proprietary information.

If the Group fails to obtain adequate protection for its intellectual property, its competitors may be able to take advantage of the Group's research and development efforts. The Group has in-licensed and acquired intellectual property rights from third parties and the Group may do so in the future. There can be no assurance that such intellectual property rights are, or will be, free from the rights and interests of further third parties and that such further third parties will not challenge the rights of the Group to such intellectual property.

Where registered intellectual property rights are licensed to, but not maintained by, the Group, there can be no assurance that the licensor will adequately maintain and protect the underlying intellectual property rights in which the Group has an interest. Such further third party interests, or any failure by a licensor to maintain and protect underlying intellectual property rights, could materially and adversely affect the business and/or financial position of the Group.

Reliance on key personnel

In common with many other smaller companies, the Group's future success will be in part dependent on its ability to retain and attract suitable senior and qualified personnel. The loss of any of these key personnel may have a material adverse effect on the future of the Group's business.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Regulation and regulatory environment

The activities of the Group are and will be subject to regulation from a number of regulatory authorities in different countries, which can range from regulation impacting the authorisation of a new product, the manufacturing processes for new and existing products and the pricing of new and existing products. The international speciality pharmaceutical and medical device industries are highly regulated by numerous governmental authorities in the UK, Europe and the US, and by regulatory agencies in other countries where the Group intends to test or market products it may develop. National regulatory authorities administer a wide range of laws and regulations governing the testing, approval, manufacturing, labelling, marketing and pricing of drugs and devices and also review the quality, safety and effectiveness of pharmaceutical products and devices. These regulatory requirements are a major factor in determining whether a substance can be developed into a marketable product and the amount of time and expense associated with such development. Government regulation imposes significant costs and restrictions on the development of pharmaceutical products for human use, including those the Group is or will be developing. The development, clinical evaluation, manufacture and marketing of the Group's products and on-going research and development activities are subject to regulation by governments and regulatory agencies in all territories within which the Group intends to manufacture and market its products (whether itself or through a partner or licensee). No assurance can be given that any of the Group's products under development will successfully complete the clinical trial process or that regulatory approvals to manufacture and market these products will ultimately be obtained or maintained in all or any territories.

The time taken to obtain regulatory approval varies between territories and no assurance can be given that any of the Group's products under development will be approved in any territory within the timescale envisaged, or at all. This may result in a delay, or make impossible, the commercialisation of its products.

Furthermore, each regulatory authority may impose its own requirements (for instance, by restricting the product's indicated uses) and may refuse to grant, or may require additional data before granting, an approval, even though the relevant product candidate may have been approved by another territory's authority.

If regulatory approval is obtained, the product and its manufacture will be subject to continual review and this approval may be withdrawn or restricted. Changes in applicable legislation or regulatory policies, or discovery of problems with the product, or its restrictions on the product, its sale, manufacture or use, including withdrawal of the product from the market or otherwise, may have an adverse effect on the Group's business, results of operations and prospects. Changes to regulation and the regulatory environment could materially impact the ability of the Group to bring new products to the market or could materially impact the profitability and cash flows of the Group if it is unable to adjust accordingly or may require the Group to incur significant additional expenditure to ensure its products and product candidates comply with new and increased regulation.

Failure of any one of the Group's products to meet regulatory standards could result in failure of the Group to bring a product to market or the withdrawal of an existing product from the market. This would have an adverse effect on the Group's business, results of operations and prospects.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Maintenance of products' regulatory status in relevant territories

The activities of the Group rely on regulatory expertise to ensure products meet regulatory requirements and to monitor changes in legislation to ensure that product licences and CE marks can be maintained in the future. There can be no assurance that products will continue to meet regulatory requirements if these change after the original regulatory approval has been granted.

Failure of any one of the Group's products to meet regulatory standards could result in the withdrawal of an existing product from the market. This would have an adverse effect on the Group's business, results of operations and prospects.

Market perceptions and negative publicity

The business of the Group is and will be highly dependent upon market perceptions of the Group, its brands and the safety and quality of the products. The Group's businesses could be adversely affected if the Group or its brands are subject to negative publicity. The Group could also be adversely affected if any of its products or any similar products distributed by other companies prove to be, or are asserted to be, harmful to consumers. Also, because of the Group's dependence upon market perceptions, any adverse publicity associated with illness or other adverse effects resulting from consumers' use or misuse of the Group's products or any similar products distributed by other companies could have a material adverse impact on the Group's results of operations.

Furthermore, government bodies and regulatory agencies require that potential pharmaceutical products are subject to preclinical studies, prior to conducting human trials. The Group may place contracts for such work either itself or through its collaborators. Such work can be subject to adverse public opinion and has attracted the attention of special interest groups. Such special interest groups have not had a significant impact on the Group's operations to date. There can, however, be no assurance that such groups will not, in the future, have a significant impact on the Group's activities or those of its licensees or collaborators, or that any such public opinion would not adversely affect the Group's operations.

Product liability and product liability insurance

The activities of the Group expose it to potential product liability and professional indemnity risks that are inherent in the research, development, manufacturing, marketing and use of pharmaceutical products and medical devices. The Group faces the risk that the use of its products in human clinical trials will result in adverse effects, including deaths, or that long-term adverse effects may emerge following marketing approval of its products. There can be no assurance that the insurances necessary to mitigate the exposure to such risks will be available to the Group at an acceptable cost or at all, or that, in the event of any claim, the level of insurance carried by the Group now or in the future will be adequate or that a product liability or other claim would not materially adversely affect the Group's business. If the Group is not able to adequately protect itself against potential liability claims, it may find it difficult or impossible to secure commercialisation of its products.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Environmental and safety regulation

The Group is and will be subject to environmental and safety laws and regulations, including those governing the use of hazardous materials. The cost of compliance with these and similar future regulations could be substantial. Although the Directors believe that the Group's procedures comply with applicable regulations, the Group cannot eliminate the risk of accidental contamination or injury from such materials. In the event of an incident, the resulting liabilities could have an adverse impact on the Group. Similarly, many of the Group's suppliers, collaborators and customers are subject to similar laws and regulations. Contravention of such laws and regulations by these groups could have an adverse impact on the Group.

International activities

Given the international nature of its business, the Group will be subject to a number of political, regulatory and trade risks, including:

- unexpected regulatory reforms;
- customs duties, export controls and other trade barriers;
- longer account receivable payments cycles and difficulties in collecting accounts receivable in certain countries;
- limited legal protection of intellectual property rights in certain countries;
- social and political instability; and
- regulations relating to withholding taxes on payments made by distributors in overseas territories.

The Group cannot guarantee that it will be able to manage these risks, many of which are outside its control, or that it will be able to ensure compliance with applicable regulations without incurring additional costs.

The Group must manage the growth of its operations effectively

The Group's ability to manage its growth effectively will require it to continue to improve its operations and procedures and to train, motivate and manage its employees as appropriate for a growing organisation. Any failure to manage current and planned growth by making the requisite improvements to its operations and proceedings may have a material and adverse effect on the Group's business, financial condition, trading performance and prospects.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal risks and uncertainties facing the Company (Continued)

Exchange rate fluctuations

As a consequence of the international nature of the Group, it will be exposed to risks associated with changes in foreign currency exchange rates. The Group's future sales operations will be affected by fluctuations in exchange rates to the extent that its sales and purchases are denominated in currencies other than its reporting currency. Movements in exchange rates to translate foreign currencies may have a significant impact on the Group's results of operations, financial position and cash flows from year to year.

Non guarantee of tax treatment

Any changes to applicable tax legislation may have an adverse effect on the Group's tax status and/or the Group's financial results. Any changes may also affect the return on an investor's investment in the Group and result in changes in tax rates and relief.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and the Group's associates are set out in notes 33 and 14 respectively to the Financial Statements.

GOODWILL

Goodwill of the Group was fully impaired in prior years as set out in note 11 to the Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the Financial Statements.

DIRECTORS' REPORT

SHARE CAPITAL AND OPTIONS

Details of the Company's share capital and outstanding share options under the Share Option Scheme (2002) are set out below and in note 20 to the Financial Statements.

(I) Share capital

During the year ended 31 December 2017 and prior to the date of this report, there were no changes in the authorised share capital of the Company.

As at 1 January 2017, the total issued ordinary share capital of the Company consisted of 1,737,251,182 shares.

During the year ended 31 December 2017:

- (1) an aggregate of 100,000,000 new ordinary shares were issued and allotted by the Company on 7 April 2017, pursuant to the general mandate granted to the Directors at the Company's annual general meeting held on 8 June 2016 (as adjusted for the 10 for 1 share consolidation which took effect on 10 June 2016 (the "**Share Consolidation**")), at the price of HK\$0.405 per share by way of a placing and top-up subscription (as detailed in the announcements issued by the Company on 29 March and 7 April 2017), for an aggregate amount of cash consideration of HK\$40,500,000 (or approximately US\$5.21 million); and
- (2) no shares were repurchased by the Company.

The proceeds of the subscription, net of issuing expenses, amounted to US\$4,946,000, of which US\$1,000,000 was credited to the share capital account and the remaining balance of US\$3,946,000 was credited to the share premium account.

As noted in the announcement issued by the Company on 29 March 2017, the Company intended to use the net proceeds from the subscription to strengthen the financial position of the Group and to provide additional funding to further develop the Group's business. In particular, the net proceeds from the subscription would be used to: (i) fund the NDA process with the FDA and the continued commercial manufacturing scale up of Fortacin™, of which approximately US\$2.46 million of the net amount raised were expended as at 31 December 2017; (ii) fund the build out of the Group's healthcare and life sciences platform by investing in further identified and unidentified investments in the sector, of which approximately US\$0.2 million of the net amount raised were expended as at 31 December 2017; and, in respect of the balance: (iii) provide general working capital for the Group, of which approximately US\$2.29 million of the net amount raised were expended as at 31 December 2017.

Accordingly, as at 31 December 2017, the total issued ordinary share capital of the Company consisted of 1,837,251,182 shares.

Subsequent to the year end date and prior to the date of this report, no new shares were issued and allotted by the Company, and no shares were repurchased by the Company.

DIRECTORS' REPORT

SHARE CAPITAL AND OPTIONS (Continued)

(2) Share Option Scheme (2002)

The Company's share option scheme, named "Share Option Scheme (2002)" (the "**Share Option Scheme (2002)**"), which was adopted with shareholders' approval at the Company's annual general meeting held on 15 November 2002, expired on 15 November 2012, being the tenth anniversary of its commencement date. The provisions of the rules of the Share Option Scheme (2002) remained in full force and effect to the extent necessary to give effect to the exercise of any options granted and remaining outstanding prior to the date of the expiry.

Details of the Share Option Scheme (2002) and particulars of the options held under the scheme by various participants are set out in note 20(1) to the Financial Statements.

As at 1 January 2017, under the Share Option Scheme (2002) there were outstanding and vested options (having been adjusted by the Share Consolidation), entitling the holders to subscribe for an aggregate of 5,703,813 ordinary shares at exercise prices ranging from HK\$7.800 to HK\$11.520 per share, representing 0.33% of the Company's then issued ordinary share capital and 0.33% of the enlarged ordinary share capital. All the outstanding options in respect of an aggregate of 5,703,813 shares or 100% were vested.

Upon adoption of the Long Term Incentive Plan 2007 on 8 December 2007 (which was terminated on 31 May 2013), no further options under the Share Option Scheme (2002) were granted.

During the year ended 31 December 2017:

- No new options were granted;
- No vested options were exercised;
- (i) An outstanding option granted on 15 May 2007 in respect of 1,200,000 shares at the exercise price of HK\$7.800 per share (as noted above, having been adjusted by the Share Consolidation) lapsed on 14 May 2017 upon expiry of the exercise period; and (ii) 11 outstanding options granted on 2 October 2007 in respect of an aggregate of 4,503,813 shares at the exercise price of HK\$11.520 per share (as noted above, having been adjusted by the Share Consolidation) lapsed on 1 October 2017 upon expiry of the exercise period; and
- No options were cancelled.

Accordingly, as at 31 December 2017, under the Share Option Scheme (2002) there were no outstanding options entitling the holders to subscribe for the shares of the Company.

Following the lapse of all outstanding and vested options on 1 October 2017, the Share Option Scheme (2002) ceased to have any effect.

DIRECTORS' REPORT

SHARE CAPITAL AND OPTIONS (Continued)

(3) Share Option Scheme (2016)

A new share option scheme, named "Share Option Scheme (2016)" (the "**Share Option Scheme (2016)**"), was adopted on 10 June 2016, with shareholders' approval at the Company's extraordinary general meeting held on 8 June 2016, which was followed by the grant by the Listing Committee of the HK Stock Exchange on 10 June 2016 of the listing of, and permission to deal in, the shares to be issued pursuant to the exercise of the options to be granted under the scheme.

Details of the Share Option Scheme (2016) are set out in note 20(2) to the Financial Statements.

Since 10 June 2016 and prior to the date of this report, no options were granted under the Share Option Scheme (2016).

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 21 to the Financial Statements. The Company considers that only profits and share premium are distributable to shareholders.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

A general mandate was granted to the Directors at the Company's annual general meeting held on 8 June 2016 to repurchase, on the HK Stock Exchange, as adjusted for the Share Consolidation, shares up to a maximum of 173,725,118 shares (the "**2016 Repurchase Mandate**"). Since 8 June 2016, no shares were repurchased by the Company on the HK Stock Exchange pursuant to the 2016 Repurchase Mandate.

The 2016 Repurchase Mandate expired upon close of the Company's annual general meeting held on 2 June 2017, at which a new general mandate was granted to the Directors to repurchase, on the HK Stock Exchange, shares up to a maximum of 183,725,118 shares (the "**2017 Repurchase Mandate**"). Since 2 June 2017 and prior to the date of this report, no shares were repurchased by the Company on the HK Stock Exchange pursuant to the 2017 Repurchase Mandate.

Save for the above, the Company or its subsidiaries did not purchase, sell or redeem any of their listed securities, whether on the HK Stock Exchange or otherwise, during the year ended 31 December 2017 or subsequent to the year end date and prior to the date of this report.

DIRECTORS' REPORT

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at all times during the year ended 31 December 2017 and prior to the date of this report, the Company has complied with the public float requirement prescribed in The Rules Governing the Listing of Securities on the HK Stock Exchange (the "HK Listing Rules") for the Company.

DIRECTORS

The Directors of the Company who held office during the year ended 31 December 2017 and up to the date of this report were:

James Mellon (*Chairman*)*

Jamie Alexander Gibson (*Chief Executive Officer*)

Charles David Andrew Comba[#]

Julie Oates[#]

Stawell Mark Searle[#]

Jayne Allison Sutcliffe*

* Non-Executive Directors

[#] Independent Non-Executive Directors

In accordance with Article 86(3) of the Company's Articles of Association, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the shareholders in general meeting, as an addition to the existing Board. Any Director so appointed shall retire at the next annual general meeting of the Company but shall then be eligible for re-election. Any Director who so retires shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting.

DIRECTORS' REPORT

DIRECTORS (Continued)

In accordance with Article 87, at each annual general meeting of the Company one-third of the Directors for the time being shall retire from office by rotation, providing that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years (which is in compliance with Code Provision A.4.2 of The Corporate Governance Code). A retiring Director shall be eligible for re-election.

No Directors will retire pursuant to Article 86(3) at the forthcoming annual general meeting of the Company (the “**2018 Annual General Meeting**”), and Julie Oates and Mark Searle will retire by rotation pursuant to Article 87 at the 2018 Annual General Meeting. Both of them, being eligible, offer themselves for re-election. Details of the Directors proposed to be re-elected, as required under Rule 13.51(2) of the HK Listing Rules, are set out in the accompanying circular to shareholders. Rotational retirement and re-election of the retiring Directors will be dealt with by a separate resolution for each of the retiring Directors at the 2018 Annual General Meeting.

None of the Directors (including those proposed for re-election at the 2018 Annual General Meeting) has any unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment (other than statutory compensation), except that: (i) the advisory agreement of James Mellon specifies that his appointment as an adviser of the Company may be terminated by either party giving one year's notice; and (ii) the service agreement of Jamie Gibson may be terminated by either party giving one year's notice.

None of the Directors (including those proposed for re-election at the 2018 Annual General Meeting) has any unexpired service contract with the Company or any of its subsidiaries, which was entered into on or before 31 January 2004 and was exempt from the shareholders' approval requirement under Rule 13.68 of the HK Listing Rules but is required to be disclosed in the Company's annual report pursuant to Paragraph 14A of Appendix 16 to the HK Listing Rules.

DIRECTORS' REPORT

DIRECTORS (Continued)

Biographical details of the Directors who hold office as at the date of this report are as follows:

- James Mellon**, aged 61, British, was appointed as an Executive Director of the Company in July 1991, and was re-designated as a Non-Executive Director in May 2002, and is currently Non-Executive Chairman of the Board of Directors. He holds a Master's degree in Politics, Philosophy and Economics from Oxford University and, since graduating in 1978, his entire career has been spent in asset management. Mr Mellon worked for GT Management Plc from 1978 to 1984. In July 1984, he joined the Thornton Group where he was Managing Director of the Asian operation. From 1988 to 1990, he was an executive director of Tyndall Holdings Plc responsible for business expansion and corporate development. In 1990, Mr Mellon co-founded and became Chief Executive of Regent Pacific Group. In 1994, he became Chairman of Regent Pacific Group. Mr Mellon has over 20 years' investment experience in Asia. He specialises in the development and restructuring of international investment vehicles, and travels extensively across the region on company visits and fact-finding missions. He is also director of certain subsidiaries of Regent Pacific Group. Mr Mellon is also: (i) a non-executive director of Condor Gold plc, the executive co-chairman of the board of Fast Forward Innovations Limited, the executive chairman of the board of Manx Financial Group plc, the non-executive chairman of the board of Port Erin Biopharma Investments Limited and the non-executive chairman of the board of SalvaRx Group Plc, all of which are listed on the Alternative Investment Market ("AIM") of the London Stock Exchange; (ii) a non-executive director of Bradda Head Limited (having changed its name on 20 March 2018 from "Life Science Developments Limited", which was de-listed from AIM on 6 October 2017); (iii) a non-executive director of Portage Biotech Inc (which is dually listed on the Over the Counter Bulletin Board of NASDAQ of the United States and the Canadian Securities Exchange); and (iv) the non-executive chairman of the board of Speymill Deutsche Immobilien Company plc (which was de-listed from AIM on 31 May 2011). He was formerly: (1) a non-executive director of Charlemagne Capital Limited ("CCL", which was de-listed from AIM on 15 December 2016), having ceased his directorship upon completion of the 100% acquisition of CCL by Fiera Capital Corporation (which is listed on the Toronto Stock Exchange) by a scheme of arrangement on 14 December 2016; (2) a non-executive director of Miraculins Inc (which is listed on the Toronto Venture Exchange ("TSX-V")), having not stood for re-election on 29 May 2014; (3) the non-executive chairman of the board of Plethora Solutions Holdings plc (which became a wholly owned subsidiary of the Company upon completion of a scheme of arrangement on 9 March 2016 and was de-listed from AIM on 11 March 2016), having resigned on 9 March 2016; (4) the non-executive chairman of the board of Rivington Street Holdings Limited (which was de-listed from ICAP Securities and Derivatives Exchange (ISDX) in the United Kingdom on 3 April 2014 and was dissolved on 20 October 2017); (5) the executive chairman of the board of Speymill plc (which was de-listed from AIM on 2 February 2015 and was dissolved on 20 October 2017); (6) a non-executive director of Summit Corporation plc (an AIM-listed company), having resigned on 3 December 2014; and (7) a non-executive director of West African Minerals Corporation (an AIM-listed company), having resigned on 13 November 2017.

DIRECTORS' REPORT

DIRECTORS (Continued)

2. **Jamie Alexander Gibson**, aged 52, British, joined Regent Pacific Group in April 1996 and was appointed as an Executive Director and Chief Operating Officer of the Company in January 2002. In May 2002, he became Chief Executive Officer of the Company. Mr Gibson has spent most of his professional career with the Company specialising in corporate finance, direct equity investments and structuring emerging market investment products. Prior to joining the Company, he worked at Clifford Chance, Coopers & Lybrand and KPMG. Mr Gibson has a law degree from Edinburgh University. He is also director of a number of subsidiaries of Regent Pacific Group, including Amerinvest Coal Industry Holding Company Limited, which in turn holds a 25% equity interest in West China Coking & Gas Company Limited, and an executive director and the Chief Executive Officer of Plethora Solutions Holdings plc (which became a wholly owned subsidiary of the Company upon completion of a scheme of arrangement on 9 March 2016 and was de-listed from AIM on 11 March 2016).
3. **Charles David Andrew Comba**, aged 74, Canadian, has been an Independent Non-Executive Director of the Company since October 2005. Until his retirement in May 2005, he held senior staff positions as Director Issues Management and more recently as Director of Regulatory Affairs with the Prospectors and Developers Association of Canada. Mr Comba obtained two geological degrees from Queen's University Kingston, Ontario, Canada, an MSc (1975) and a Hon BSc (1972). He served on or led mineral exploration teams that have made eleven significant discoveries of base and precious metals, primarily for Falconbridge Group companies. Five discoveries were taken to production. He ceased to be a director of North American Palladium Ltd (listed on the Toronto Stock Exchange and the American Stock Exchange) on 23 June 2014 by mandatory retirement upon the age of 71. Mr Comba was a director and chairman of the board of First Nickel Inc (listed on the Toronto Stock Exchange), which agreed on 20 August 2015 to enter into receivership with its two principal debt holders. He resigned as a director of CR Capital Corp, a Canadian company listed on the NEX board of TSX-V, on 31 January 2018.
4. **Julie Oates**, aged 56, British, has been an Independent Non-Executive Director of the Company since September 2004. She trained with PKF (Isle of Man) LLC and qualified in 1987 as a member of The Institute of Chartered Accountants in England and Wales. Mrs Oates later joined the international firm of Moore Stephens, and was appointed partner in the Isle of Man firm in 1997. In 2002, she joined a local trust company as Managing Director and in 2003 established her own accountancy practice. Mrs Oates has experience in both the general practice areas of accounting and business assurance as well as offshore corporate and trust administration. Mrs Oates acts as director for a number of companies and is licensed by the Isle of Man Government Financial Services Authority.

DIRECTORS' REPORT

DIRECTORS (Continued)

5. **Stawell Mark Searle**, aged 74, British, has been an Independent Non-Executive Director of the Company since October 2001. He has over 30 years' experience in the investment management industry. Having trained with Jardine Matheson, the Far Eastern trading house in London, he was seconded to Samuel Montagu where he worked for two years in their Investment Department. Subsequently, Mr Searle joined Investment Intelligence Limited becoming Investment Director responsible for management of a stable of open ended funds. Between 1982 and 1987, he was Managing Director of Richards Longstaff Limited, a privately owned investment consultancy. In the following ten years, he was Investment Director of Gerrard Asset Management. Mr Searle has been a director of a number of closed-ended funds during his career.
6. **Jayne Allison Sutcliffe**, aged 54, British, was appointed as the Group Corporate Finance Director in August 1991 and was re-designated as a Non-Executive Director in June 2000. Mrs Sutcliffe has spent most of her professional career in the fund management industry specialising in sales and marketing initially at Thornton Management and then at Tyndall Holdings Plc. Mrs Sutcliffe co-founded Regent Pacific Group in 1990 where she established, and was responsible for, the Group's corporate finance activities. She has a Master's degree in Theology from Oxford University. Mrs Sutcliffe is also director of a subsidiary of Regent Pacific Group. She is also the Group Chief Executive of CCL, which was delisted from AIM on 15 December 2016 upon completion of the 100% acquisition of CCL by Fiera Capital Corporation (which is listed on the Toronto Stock Exchange) by a scheme of arrangement on 14 December 2016.

Save as disclosed in this report, none of the Directors has any relationships (either financial or business or family or other material/relevant relationship(s)) with any other Directors, senior management or substantial or controlling shareholders of the Company.

Save as disclosed in this report, none of the Directors has any connections (either being a director or an employee) with any company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of The Securities and Futures Ordinance of Hong Kong (the "SFO").

DIRECTORS' REPORT

DIRECTORS (Continued)

The Directors serve on the various committees of the Board as follows:

| Name of Director | Audit Committee | Remuneration Committee | Nomination Committee | Investment Committee (Note 1) | Connected Transactions Committee (Note 2) | Technical Committee (Notes 3&4) | Inside Information Committee (Notes 5&6) |
|------------------|------------------------------|------------------------------------|----------------------------------|----------------------------------|-----------------------------------------------|---------------------------------|------------------------------------------|
| James Mellon | Member of Audit Committee | Member of Remuneration Committee | Chairman of Nomination Committee | Chairman of Investment Committee | | | |
| Jamie Gibson | | | | Member of Investment Committee | Member of Connected Transactions Committee | Chairman of Technical Committee | Member of Inside Information Committee |
| David Comba | | | | | | Member of Technical Committee | |
| Julie Oates | Chairlady of Audit Committee | Member of Remuneration Committee | Member of Nomination Committee | | Chairlady of Connected Transactions Committee | | |
| Mark Searle | Member of Audit Committee | Chairman of Remuneration Committee | Member of Nomination Committee | | Member of Connected Transactions Committee | | |
| Jayne Sutcliffe | | | | | | | |

DIRECTORS' REPORT

DIRECTORS (Continued)

Notes:

1. The Investment Committee oversees the investments of the Group.
2. The Connected Transactions Committee reviews and monitors any conflict of interests that the Group may have with any of its directors, employees or members and, moreover, any actual or potential connected or related party transaction (including connected transactions exempted under the HK Listing Rules) that the Group is proposing to enter into, including any approvals thereof.
3. The Technical Committee reviews and monitors the compliance of the Company with the requirements of Chapter 18 of the HK Listing Rules (together with associated provisions of the HK Listing Rules).
4. The Technical Committee comprises other members who are not Directors of the Company.
5. The Inside Information Committee reviews and monitors the compliance of the Company with its statutory disclosure obligations under Part XIVA of the SFO, the HK Listing Rules and other applicable laws and regulations in respect of disclosure and transparency relevant to the Company.
6. The Inside Information Committee comprises other members who are not Directors of the Company.

The Company has been informed by James Mellon that there is an arrest warrant in his name, which was originally issued by the South Korean prosecutor's office on 19 December 2000 and subsequently re-issued on 14 January 2004. The warrant was due to remain valid and effective until 12 March 2010. The arrest warrant pertains to Mr Mellon's alleged involvement in a conspiracy to manipulate the share price of Regent Securities Co, Ltd. Mr Mellon has informed the Company that he denies these allegations which are wholly without substance.

DIRECTORS' REPORT

SENIOR MANAGEMENT

1. **David Samuel Church**, Head of Mergers and Acquisitions and General Counsel, aged 43, Australian, joined Regent Pacific Group in 2008. He is also director of a number of subsidiaries of Regent Pacific Group. Mr Church has more than 19 years' experience in mergers and acquisitions and corporate finance in Australia, the UK, Europe and Asia with expertise across multiple sectors. Mr Church has worked on domestic and international corporate transactions as well as major international equity offerings for corporates and investment banks. He has over 13 years' experience in Asia including transactions in Hong Kong, Korea, the PRC, Singapore, Indonesia, Malaysia and the Philippines. Mr Church has acted and advised on some of the most high profile M&A transactions in Europe and Asia. He is qualified and has practiced as a solicitor in Australia, with Clayton Utz, and in the UK and Hong Kong, with Linklaters.
2. **Paul Eric Jones**, Investment Director, aged 53, Canadian, has 28 years of experience in the energy industry and corporate finance. This has included various professional disciplines encompassing fund management, commercial banking and business development. Before joining Regent Pacific Group in April 2011, Mr Jones was employed for six years with a Canadian private equity fund, where he was principally engaged in evaluating investment opportunities on behalf of the firm's investors and managing a portfolio of public and private securities. Prior thereto, Mr Jones was a Director in the energy lending group at the Canadian Imperial Bank of Commerce (CIBC) where he specialised in arranging debt financing and providing advisory services to oil and gas producers. Previous to his banking career, Mr Jones was a financial analyst with TransCanada Corp. (a large Canadian power generation and energy transmission company), where he was responsible for initiatives relating to bond issuance, project finance, capital budgeting and investor relations. Mr Jones holds a Bachelor of Arts and a Master of Business Administration (Finance), both from the University of Calgary.
3. **Professor Michael Grant Wyllie**, Chief Scientific Officer, aged 67, British, has particular responsibility for the process of securing approvals of the product, regulatory compliance and assisting the Chief Executive Officer in the commercial development of Fortacin™ of Plethora Solutions Holdings plc. Prof Wyllie is a co-founder of Plethora. He has over 30 years of experience in senior management level positions within the pharmaceutical industry, with Wyeth and Pfizer. He has considerable hands-on experience in all aspects of the drug discovery and development process, and has been involved with new project inception, drug discovery and safety testing, early and late stage clinical development, regulatory filing, and the successful commercialisation of products, including Cardura® (doxazosin), Enablex® (darifenacin) and Viagra® (sildenafil). Prof Wyllie sits on the Clinical Trial Design and Future Therapies in BPH Committees of the World Health Organisation International Consultations on Urological Disease and the International Advisory Panel to The University of Strathclyde. He is an assistant editor of the British Journal of Urology in the Sexual Medicine Section. He has over 200 publications and is the named inventor of over 80 patents. He is an independent director on the board of the NASDAQ listed reproductive health company, Repros (RPRX).

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES AND OPTIONS

As at 31 December 2017, the Directors of the Company had the following beneficial interests in the shares and underlying shares (in respect of positions held pursuant to equity derivatives) of the Company or of its associated corporations (within the meaning of Part XV of the SFO), which were recorded in the Register of Directors' and Chief Executive's Interests and Short Positions required to be kept by the Company under Section 352 of the SFO or which were otherwise notified to the Company and the HK Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests which the Directors were deemed or taken to have under such provisions of the SFO) or pursuant to The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the HK Listing Rules:

I. Securities of the Company

a. Ordinary shares of US\$0.01 each

| Name of Director | Note | Capacity in which the shares are held | Long/Short position | Number of shares | Approximate % holding* |
|------------------|------|--------------------------------------------|---------------------|------------------|------------------------|
| James Mellon | | Beneficial owner | Long position | 361,594,306 | 19.68% |
| | A | Interests held by controlled corporation | Long position | 25,791,905 | 1.40% |
| Jamie Gibson | | Beneficial owner | Long position | 69,208,513 | 3.77% |
| David Comba | | — | — | — | — |
| Julie Oates | B | Interests held jointly with another person | Long position | 1,000,000 | 0.05% |
| Mark Searle | | Beneficial owner | Long position | 471,228 | 0.03% |
| | C | Beneficiary of a trust | Long position | 2,070,760 | 0.11% |
| | C | Family interest | Long position | 628,304 | 0.03% |
| Jayne Sutcliffe | D | Beneficial owner | Long position | 1,716,046 | 0.09% |

* The total issued ordinary share capital of the Company as at 31 December 2017 consisted of 1,837,251,182 shares. There were no changes in the Company's issued share capital subsequent to the year end date and prior to the date of this report.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES AND OPTIONS (Continued)

I. Securities of the Company (Continued)

b. Options under Share Option Scheme (2002)

Please refer to note 20(1) to the Financial Statements as to the details of the Share Option Scheme (2002), which expired on 15 November 2012, with the provisions of the rules of the scheme remaining in full force and effect to the extent necessary to give effect to the exercise of any options granted and remaining outstanding prior to the date of the expiry.

Upon adoption of the Long Term Incentive Plan 2007 on 8 December 2007 (which was terminated on 31 May 2013), no further options under the Share Option Scheme (2002) were granted. During the year ended 31 December 2017, no outstanding and vested options under the Share Option Scheme (2002) held by the Directors of the Company were exercised or cancelled. Outstanding and vested options, which were granted on 2 October 2007, held by James Mellon, Jamie Gibson and David Comba in respect of 1,300,000 shares, 1,300,000 shares and 500,000 shares respectively at the exercise price of HK\$11.520 (having been adjusted by the Share Consolidation) lapsed on 1 October 2017 upon expiry of the exercise period.

Accordingly, as at 31 December 2017, none of the Directors of the Company had any personal interests in options granted under the Share Option Scheme (2002), entitling him/her to subscribe for ordinary shares of US\$0.01 each in the capital of the Company in accordance with, and subject to, the terms of the scheme.

As set out in note 20(1) to the Financial Statements, following the lapse of all outstanding and vested options on 1 October 2017, the Share Option Scheme (2002) ceased to have any effect.

c. Options under Share Option Scheme (2016)

Please refer to note 20(2) to the Financial Statements as to the details of the Share Option Scheme (2016).

Since the commencement of the Share Option Scheme (2016) on 10 June 2016, no options were granted under the scheme. Accordingly, as at 31 December 2017 and the date of this report, none of the Directors of the Company had/has any personal interests in options granted under the Share Option Scheme (2016), entitling him/her to subscribe for ordinary shares of US\$0.01 each in the capital of the Company in accordance with, and subject to, the terms of the scheme.

Save for the above, during the year ended 31 December 2017 and prior to the date of this report, no Directors of the Company exercised any of their rights under the respective options granted to them pursuant to the Share Option Scheme (2002) or the Share Option Scheme (2016) and subscribed for shares in the Company; and no new options were granted; and no outstanding options lapsed or were cancelled.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES AND OPTIONS (Continued)

2. Securities of associated corporations

a. Ordinary shares of US\$0.01 of AstroEast.com Limited (note E)

| Name of Director | Note | Capacity in which the shares are held | Long/Short position | Number of shares | Approximate % holding |
|------------------|------|---------------------------------------|---------------------|------------------|-----------------------|
| James Mellon | — | — | — | — | — |
| Jamie Gibson | — | Beneficial owner | Long position | 225,000 | 0.80% |
| David Comba | — | — | — | — | — |
| Julie Oates | — | — | — | — | — |
| Mark Searle | — | — | — | — | — |
| Jayne Sutcliffe | — | Beneficial owner | Long position | 150,000 | 0.54% |

b. Ordinary shares of £0.001 of The Diabetic Boot Company Limited ("**Diabetic Boot**") (note F)

| Name of Director | Note | Capacity in which the shares are held | Long/Short position | Number of shares | Approximate % holding |
|------------------|------|------------------------------------------|---------------------|------------------|-----------------------|
| James Mellon | G | Beneficial owner | Long position | 88,409 | 14.60% |
| | H | Interests held by controlled corporation | Long position | 6,657 | 1.10% |
| Jamie Gibson | — | — | — | — | — |
| David Comba | — | — | — | — | — |
| Julie Oates | — | — | — | — | — |
| Mark Searle | — | — | — | — | — |
| Jayne Sutcliffe | — | — | — | — | — |

Notes:

- A. The 25,791,905 ordinary shares in the Company are held by a company indirectly wholly owned by James Mellon.
- B. The 1,000,000 ordinary shares in the Company are held by Julie Oates for the beneficial interests jointly with Alan Clucas Oates (her spouse).
- C. The 2,070,760 ordinary shares in the Company are held to the order of a pension fund, of which Mark Searle is the sole beneficiary. The 628,304 ordinary shares in the Company are held by Juliet Mary Druce Searle (the spouse of Mark Searle).

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES AND OPTIONS (Continued)

Notes: (Continued):

- D. 2,796,522 ordinary shares in the Company were formerly deemed to be the interests held by Jayne Sutcliffe, as those shares were held by the trustee of a discretionary trust, under which Jayne Sutcliffe and members of her family might become beneficiaries, via an investment company.

On 1 March 2018, Jayne Sutcliffe filed a notice to the HK Stock Exchange, disclosing that on 4 April 2017, the trustee wound up the trust and distributed all the trust assets, including the said investment company, to the daughter of Jayne Sutcliffe. Jayne Sutcliffe's daughter is over the age of 18 and not being herself a director of the Company.

- E. AstroEast.com Limited is an indirect 50.99% owned subsidiary of the Company.
- F. As at 31 December 2017 and the date of this report, the Company held/holds 22% in the total issued share capital of Diabetic Boot.
- G. As at 31 December 2017, James Mellon held 88,409 shares in Diabetic Boot and loan notes in an aggregate amount of £ 1,947,781 which could be convertible into an aggregate of 129,854 shares in Diabetic Boot.

Subsequent to the year end date, no further loan notes were issued to James Mellon.

- H. As at 31 December 2017, 6,657 shares in Diabetic Boot and loan notes in an aggregate amount of £ 1,304,124 (which could be convertible into an aggregate of 86,942 shares in Diabetic Boot) were held by a company indirectly wholly owned by James Mellon.

Subsequent to the year end date and during the period from 2 January 2018 to 2 March 2018, further loan notes in an aggregate amount of £ 354,000 (which could be convertible into an aggregate of 23,600 shares in Diabetic Boot) were issued to the aforesaid company indirectly wholly owned by James Mellon.

As at the date of this report, 6,657 shares in Diabetic Boot and loan notes in an aggregate amount of £ 1,658,124 (which can be convertible into an aggregate of 110,542 shares in Diabetic Boot) are held by a company indirectly wholly owned by James Mellon.

Save as disclosed herein, as at 31 December 2017 and as at the date of this report, none of the Directors had/has any beneficial interests or short positions in the shares, underlying shares (in respect of positions held pursuant to equity derivatives) or debentures of the Company or of any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be recorded in the Register of Directors' and Chief Executive's Interests and Short Positions required to be kept by the Company under Section 352 of the SFO or which would have to be otherwise notified to the Company and the HK Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests and short positions which the Directors were/are deemed or taken to have under such provisions of the SFO) or pursuant to the Model Code.

Save as disclosed herein, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) did not grant to any Director of the Company any rights to subscribe for the equity or debt securities of the Company or of any of its associated corporations, or had there been any exercise of such options during the year and prior to the date of this report (including those interests which the Directors were/are deemed or taken to have under such provisions of the SFO).

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND SIGNIFICANT CONTRACTS

(I) Further subscription of new shares in The Diabetic Boot Company Limited

On 20 April 2016, the Company announced that on 19 April 2016 it entered into a binding term sheet (the “**Binding Term Sheet**”) with Diabetic Boot in respect of a further subscription by the Company, in three equal conditional tranches, of up to 130,434 new shares in Diabetic Boot (“**Diabetic Boot Share(s)**”) at £23 per Diabetic Boot Share in cash, together with up to 65,217 fundraising warrants of Diabetic Boot, in three equal conditional tranches, for an aggregate consideration of up to £2,999,982 (the “**Subscription**”).

The three tranches had final dates at which the relevant conditions/performance milestones (as set out in details in the said announcement) for each such tranche had to be satisfied by Diabetic Boot (as determined by the Company, acting reasonably) or waived by the Company in writing, being 31 May 2016, 30 September 2016 and 31 December 2016 respectively. The Company essentially had: (i) a conditional obligation to acquire the new shares and warrants in the first tranche and the second tranche (each of 43,478 new Diabetic Boot Shares and 21,739 fundraising warrants) upon Diabetic Boot fulfilling or satisfying the conditions/performance milestones pertaining to the respective tranches as set out in the Binding Term Sheet or such conditions/performance milestones being waived by the Company; and (ii) a right (option) to acquire the new shares and warrants in the third tranche (being 43,478 new Diabetic Boot Shares and 21,739 fundraising warrants) irrespective of whether Diabetic Boot was able to fulfill the conditions/performance milestones pertaining to such tranche as set out in the Binding Term Sheet.

Given that: (i) James Mellon (then the Non-Executive Co-Chairman of the Board of the Company holding, by himself and his associates, 22.32 per cent of the total issued share capital of the Company); and (ii) Anthony Baillieu (whose connection with the Company as referred to below, then holding, through a nominee company owned by his family which held shares and cash to the individual family members' accounts, 0.001 per cent of the total issued share capital of the Company), both being shareholders of Diabetic Boot, were connected persons of the Group, the further investment into Diabetic Boot by way of the first tranche and the second tranche of the Subscription, together with the relevant number of fundraising warrants, constituted a connected transaction of the Company under Chapter 14A of the HK Listing Rules. However, neither of the above-mentioned Directors had a material interest in the further investment into Diabetic Boot by way of the first tranche and the second tranche under the Binding Term Sheet, and such investment was exempted from the circular (including independent financial advice) and shareholders' approval requirements under the de minimis provisions of Rule 14A.76(2), and James Mellon abstained from voting on the board resolution approving the Subscription. The views of the Independent Non-Executive Directors on the subscriptions were set out in the said announcement.

Anthony Baillieu was formerly a Director of the Company having resigned in October 2005, but remained as a director of two of the Company's dormant subsidiaries (being AstroEast.com Limited and AstroEast.com (Hong Kong) Limited), holding such positions since January 2000. Mr Baillieu then held, through a nominee company owned by his family, but to his own individual account, 0.001 per cent of the total issued share capital of the Company.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND SIGNIFICANT CONTRACTS (Continued)

(1) Further subscription of new shares in The Diabetic Boot Company Limited (Continued)

The subscription of the first tranche of 43,478 new Diabetic Boot Shares and 21,739 fundraising warrants for an aggregate amount of cash consideration of £ 999,994 was completed on 11 May 2016, upon the conditions that were required to be satisfied in respect of the first tranche having been satisfied.

As Diabetic Boot failed to satisfy the performance milestones pertaining to the second tranche and the third tranche (each of 43,478 new Diabetic Boot Shares and 21,739 fund raising warrants, for an aggregate amount of cash consideration of £ 1,999,988) to the Company's satisfaction (acting reasonably) by the specified dates and without the waiver given by the Company (in writing): (i) the Company ceased to have any obligation whatsoever to subscribe into the second tranche of the Subscription and its obligations in respect thereof terminated automatically on 30 September 2016; and (ii) the Company elected not to subscribe into the third tranche of the Subscription and such option lapsed automatically and became void on 31 December 2016, in each case, without any liability or continuing obligation to Diabetic Boot.

(2) Disposal of shares in Condor Gold plc

On 13 January 2017, the Company announced that on 12 January 2017 it disposed of, among others, an aggregate of 1,636,998 shares in Condor Gold plc to James Mellon and Galloway Limited ("**Galloway**", a company wholly owned by the trustee of a settlement, of which James Mellon was the sole beneficiary) for an aggregate amount of cash consideration of £ 809,783.99.

Given that James Mellon (the Non-Executive Chairman of the Board of the Company then holding, by himself and his associates, 22.32 per cent of the total issued share capital of the Company) and Galloway were connected persons of the Group, the above disposal constituted a connected transaction of the Company under Chapter 14A of the HK Listing Rules. However, such disposal was exempted from the circular (including independent financial advice) and shareholders' approval requirements under the de minimis provisions of Rule 14A.76(2), and James Mellon abstained from voting on the board resolution approving such disposal. The views of the Independent Non-Executive Directors on the disposal were set out in the said announcement.

Save for the above, no connected transactions (as defined in Chapter 14A of the HK Listing Rules) or significant contracts (as referred to in Paragraph 15 of Appendix 16 to the HK Listing Rules) of the Company, to which the Company or any of its subsidiaries was/is a party and in which a Director or Directors of the Company had/has/have a material interest, either directly or indirectly, subsisted/subsists as at 31 December 2017 or as at the date of this report or at any time during the year and prior to the date of this report.

Further, the Company established a connected transactions committee on 20 October 2008 to review and monitor any conflict of interests that the Group may have with any of its directors, employees or members and, moreover, any actual or potential connected or related party transaction (including connected transactions exempted under the HK Listing Rules) that the Group is proposing to enter into, including any approvals thereof. The committee comprises two Independent Non-Executive Directors, namely Julie Oates (the Chairlady) and Mark Searle, and the Executive Director and Chief Executive Officer (Jamie Gilson).

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

Except for the directors' and officers' liability insurance policy provided by the Company in respect of legal action against its Directors, during the year ended 31 December 2017 and prior to the date of this report, there was not any permitted indemnity provision (whether made by the Company or otherwise) (as referred to in Sections 468 to 470 of The Companies Ordinance (Chapter 622) of Hong Kong (the "**Companies Ordinance**") and Section 9 of the Companies (Directors' Report) Regulation (Chapter 622D) of Hong Kong) in force for the benefit of any Director of the Company or any director of any associated company of the Company.

MANAGEMENT CONTRACTS

No contracts, other than contracts of service with any Director of the Company or any person engaged in the full-time employment of the Company, subsisted/subsists as at 31 December 2017 or as at the date of this report or at any time during the year and prior to the date of this report, whereby any individual, firm or body corporate undertook/undertakes the management and administration of the whole or any substantial part of any business of the Company, as referred to in Section 543 of the Companies Ordinance.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The Directors, except for the Independent Non-Executive Directors who are not subject to the disclosure requirement under Rule 8.10 of the HK Listing Rules, have declared that they (and their respective associates) are not interested in any business (either being its director or its substantial shareholder) apart from the Company's business, which competes or is likely to complete, either directly or indirectly, with the Company's business save that the following companies may pursue investment opportunities that may compete against the Company:

(I) **Bradda Head Limited (formerly "Life Science Developments Limited")**

Bradda Head Limited ("**Bradda Head**"), which was formerly "Life Science Developments Limited" and was de-listed from AIM on 6 October 2017) is a life science and biotech investing company.

James Mellon is a non-executive director of Bradda Heda, and as at the date of this report:

- The Company does not hold any interests in its total issued share capital; and
- James Mellon (himself and through his associate) holds less than 3 per cent of its total issued share capital, which is not disclosable under the rules of the relevant regulator(s).

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (Continued)

(2) Condor Gold plc

Condor Gold plc ("**Condor**", AIM: CNR and FSX: W5X) is a UK based gold exploration company dually listed on AIM and the Frankfurt Stock Exchange, focused on proving a large commercial reserve on its 100 per cent owned La India Project in Nicaragua.

James Mellon is a non-executive director of Condor, and as at the date of this report:

- The Company does not hold any interests in its total issued share capital; and
- James Mellon (himself and through his associate) holds approximately 5.16 per cent of its total issued share capital.

(3) The Diabetic Boot Company Limited

Diabetic Boot is a private single product medical device company based near Oxford, in the United Kingdom, focusing on the treatment of diabetic foot ulcers, which are a comorbidity of diabetic mellitus.

As at the date of this report:

- The Company holds approximately 22 per cent of its total issued share capital; and
- James Mellon (himself and through his associate) holds approximately 15.70 per cent of its total issued share capital and loan notes in an aggregate amount of £ 3,605,905 which can be convertible into an aggregate of 240,396 shares.

As at the date of this report, Port Erin Biopharma Investments Limited (as referred to below) holds approximately 1.17 per cent of the total issued share capital of Diabetic Boot.

As at the date of this report, Fast Forward Innovations Limited (as referred to below) holds approximately 4.29 per cent of the total issued share capital of Diabetic Boot.

(4) Fast Forward Innovations Limited

Fast Forward Innovations Limited ("**Fast Forward Innovations**", AIM: FFWD) is an AIM-listed company, aiming to bring investment opportunities often reserved for the private market of venture capital firms to the public market. Fast Forward Innovations invests in visionary entrepreneurs developing innovative technologies that solve problems in their industries.

James Mellon is the executive co-chairman of the board of Fast Forward Innovations, and as at the date of this report:

- The Company does not hold any interests in its total issued share capital; and
- James Mellon (through his associate) holds approximately 7.98 per cent of its total issued share capital.

As at the date of this report, Fast Forward Innovations holds approximately 4.29 per cent of the total issued share capital of Diabetic Boot (as referred to above).

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (Continued)

(5) Port Erin Biopharma Investments Limited

Port Erin Biopharma Investments Limited ("**Port Erin Biopharma**", AIM: PEBI) is an AIM-listed company investing in the Biotechnology and Biopharmaceutical sector.

James Mellon is the non-executive chairman of the board of Port Erin Biopharma, and as at the date of this report:

- The Company does not hold any interests in its total issued share capital; and
- James Mellon (himself and through his associate) holds approximately 29.01 per cent of its total issued share capital.

As at the date of this report, Port Erin Biopharma holds approximately 1.17 per cent of the total issued share capital of Diabetic Boot (as referred to above).

(6) Portage Biotech Inc

Portage Biotech Inc ("**Portage Biotech**", CSE: PBT.U and OTCBB: PTGEF) is dually listed on the Over the Counter Bulletin Board of NASDAQ of the United States and the Canadian Securities Exchange, focusing on discovering and developing innovative cell permeable peptide therapies and developing drug therapies.

James Mellon is a non-executive director of Portage Biotech, and as at the date of this report:

- The Company does not hold any interests in its total issued share capital; and
- James Mellon (himself and through his associates) holds approximately 16.38 per cent of its total issued share capital.

(7) SalvaRx Group Plc

SalvaRx Group Plc ("**SalvaRx**", AIM: SALV) is an AIM-listed drug discovery and development company, focused on immune-oncology. It invests in novel cancer immuno-therapies and provides its portfolio companies with operational support ranging from direct operation of subsidiaries to advisory or part-time involvement in more established companies.

James Mellon is the non-executive chairman of the board of SalvaRx, and as at the date of this report:

- The Company does not hold any interests in its total issued share capital; and
- James Mellon (himself and through his associates) holds approximately 36.53 per cent of its total issued share capital.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (Continued)

(8) Venturex Resources Limited

Venturex Resources Limited (ASX: VXR) is a base metals exploration and development company listed on the Australian Securities Exchange, focused on progressing its two promising zinc/copper projects in the Pilbara region of Western Australia.

As at the date of this report:

- The Company holds approximately 16.32 per cent of its total issued share capital; and
- James Mellon (through his associate) holds less than 5 per cent of its total issued share capital, which is not disclosable under the rules of the relevant regulator(s).

Note:

James Mellon resigned as a non-executive director of West African Minerals Corporation (AIM: WAFM), an AIM-listed company, on 13 November 2017, in which: (i) the Company did not hold any interest in its total issued share capital; and (ii) James Mellon (himself and through his associate) held less than 10 per cent of its total issued share capital.

Currently, the existing businesses of above companies do not compete against the Company's existing businesses. Should the Company and any of the above companies come into competition in the future, no Director of the Company shall vote on any board resolution of the Company approving any contract or arrangement or any other proposal in which they or any of their associates have a material interest, nor shall they be counted in the quorum present in the meeting, in each case if, and to the extent, required under Rule 13.44 of the HK Listing Rules.

SUBSTANTIAL SHAREHOLDERS

The Directors are not aware of any persons (other than James Mellon, whose interests are set out in details under the section headed "Directors' Interests in Securities and Options"), who, as at 31 December 2017 or as at the date of this report, had/have beneficial interests or short positions in the shares and underlying shares (in respect of positions held pursuant to equity derivatives) of the Company, which would have to be recorded in the Register of Interests and Short Positions of Substantial Shareholders required to be kept by the Company under Section 336 of the SFO or which would have to be otherwise notified to the Company and the HK Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO (including those interests which they were/are deemed or taken to have under such provisions of the SFO).

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

The major customers and suppliers of the Group provided less than 30% of the total income and purchase expenditure of the Group.

AUDITOR

The Financial Statements were audited by BDO Limited.

There was no change in the Company's auditor during the preceding three years.

BDO Limited will retire at the 2018 Annual General Meeting and, being eligible, offer itself for re-appointment. An ordinary resolution has been proposed for the 2018 Annual General Meeting for the re-appointment of BDO Limited.

CORPORATE GOVERNANCE REPORT

Shareholders' attention is also drawn to the Corporate Governance Report included in this annual report, in compliance with Appendix 14 to the HK Listing Rules.

On Behalf of the Board

James Mellon

Chairman

23 March 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

REVENUE AND PROFIT

The Group recorded a loss attributable to the shareholders of the Company of US\$27.36 million in 2017 (2016: US\$2.46 million).

The Group (revenue and fair value gain on financial instruments) recorded a gain of US\$9.49 million (2016: US\$3.44 million).

The Group's associate, The Diabetic Boot Company Limited ("**Diabetic Boot**"), recorded a share of loss of US\$1.07 million for the year ended 31 December 2017.

The main elements of the loss are analysed as follows:

| | US\$ million |
|--------------------------------------------------------------------------------------------------------|----------------|
| Milestone income | 5.27 |
| Amortisation of an intangible asset, Fortacin™ | (28.05) |
| Research and development expenditure incurred by Plethora Solutions Holdings plc (" Plethora ") | (2.46) |
| Fair value gain on financial instruments | 4.26 |
| Impairment loss on interest in an associate | (1.88) |
| Tax credit | 2.98 |
| Operational expenses | (7.48) |
| Total loss attributable to shareholders of the Company | (27.36) |

FINANCIAL POSITION

Shareholders' equity decreased by 12.43% to US\$158.82 million as at 31 December 2017 from US\$181.37 million as at 31 December 2016. The decrease was mainly due to: (i) the net loss attributable to shareholders of the Company of US\$27.36 million for the year ended 31 December 2017; and (ii) the decrease of foreign currency exchange reserve of US\$0.14 million; and this was offset against: (iii) the increase of share capital and share premium of US\$4.95 million by issuing shares through a placing and top-up subscription.

The Group's assets comprised: (i) an intangible asset of US\$165.13 million; (ii) listed and unlisted investments of US\$10.70 million; (iii) cash and bank balances of US\$2.25 million; and (iv) other assets and receivables of US\$0.74 million.

The Group's liabilities comprised: (i) deferred tax liabilities of US\$16.51 million; and (ii) payables and accruals of US\$3.54 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

STRATEGIC PLAN

The Board and the Company's senior management play an active role in the Company's strategy development and planning process. The Chief Executive Officer regularly interacts with the Board in respect of the strategic plan and direction of the Company, during which meetings the Chief Executive Officer seeks and is provided input in respect of the proposed priorities and initiatives previously discussed and agreed with senior management, aiming at developing an agreed approach for the Company to generate and preserve its long-term value, while agreeing shorter term priorities and objectives. In addition, the risks associated with the current operations and strategy of the Company are continually being tested by way of an internal audit process conducted through an independent service provider, with the aim of identifying ways in which the Company can better identify and manage its risks.

In order to generate or preserve value over the longer term, the Group is committed to:

- divesting of non-core assets and investments to enable the Company to pursue growth and opportunistic investments in the healthcare and life sciences sector;
- leverage off our expert international and local teams to tackle difficult markets, deliver results and achieve global recognition; and
- utilise the Company's Hong Kong listing through strong liquidity and access to international capital markets, together with maintaining our corporate governance and social responsibility standards in line with the policies set down by The Stock Exchange of Hong Kong Limited and best practice.

The Company is committed to creating shareholder value and returns through accretive acquisitions and returning surplus capital to shareholders by way of an effective dividend policy and share repurchase programme.

The current strategy of the Group can be seen in the latest Company's presentation available on the Company's website (www.regentpac.com).

FUNDING

As at 31 December 2017, the Group had US\$2.25 million in cash that represented 1.42% of its total shareholders' equity, which did not take into account the Group's holding of securities of financial assets at fair value through profit or loss that amounted to US\$8.78 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

GEARING RATIO

No gearing ratio (being long-term debts over total equity and long-term debts) was calculated as there was no long-term debt as at 31 December 2017.

CONTINGENT LIABILITIES

Save as those disclosed in notes 27 and 31 to the Financial Statements, the Group had no other material contingent liabilities as at 31 December 2017.

CHARGE ON ASSETS

As announced by the Company on 28 January 2013, 18 April 2013 and 23 August 2013 and as further disclosed in the Company's half yearly and annual reports since 2013, the Company received orders from the Federal Court of Australia in relation to an assessment issued by the Commissioner of Taxation in the amount of A\$12.78 million (or approximately US\$13.49 million at the then exchange rate between A\$ and US\$) following completion of the sale of its securities in BC Iron Limited for gross proceeds of A\$81.61 million (or approximately US\$84.73 million at the then exchange rate between A\$ and US\$) (the "**Assessment**"). The amount of potential capital gains tax assessed was expressed to be due and payable on 2 December 2013. On 7 September 2016, the Australian Taxation Office considered that capital gains tax was amended down and payable in the amount of approximately A\$11.85 million (or approximately US\$8.54 million at the then exchange rate between A\$ and US\$).

Following consultation with the Commissioner of Taxation and pursuant to the terms of the Settlement Deed (as defined in the announcement dated 18 April 2013), the Company agreed to grant The Commonwealth of Australia, represented by the Commissioner of Taxation, a specific security deed (as amended by way of a deed of amendment dated 27 November 2013) (together, the "**Specific Security Deed**") in respect of certain of the Company's holding of 518,103,930 shares in Venturex Resources Limited, 10,854,568 shares in Bannerman Resources Limited and 12,700,000 shares in Tigers Realm Coal Limited, of which the aggregate market value was approximately A\$10.04 million (or approximately US\$7.84 million) as at 31 December 2017, as security against the Assessment, in consideration of the Commissioner of Taxation taking steps to discontinue the Court orders within 7 days of the date of the Specific Security Deed and staying recovery action in respect of the Assessment until the matter is resolved within the time provided for in any relevant law following the Final Determination of Objection (as defined in the announcement dated 18 April 2013).

None of the Group's other assets were pledged as at 31 December 2017 (2016: Nil).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

MANAGEMENT OF RISK

In 2017, the most significant risk affecting the profitability and viability in respect of the Group was the continued success and revenue derived from its listed equity portfolio and in respect of the Group's interest in Plethora. Risks relating to the Group's interests include:

Equity Markets

Global financial markets are continuing to experience significant levels of volatility, driven largely by macro-economic imbalances stemming from the sovereign debt problems in Europe and the credit tightening in developing countries. As such, the future returns from the Group's equity portfolio are linked to the health of the macro environment for which the Group cannot control. Past returns from the listed equity portfolio cannot be used to judge the Group's future listed equity performance.

Foreign Exchange Risk

The Group operates using US dollars. As such, the Group is exposed to foreign currency fluctuations arising from operations of its subsidiaries and associates. This exposure relates mainly to the translation between US dollars and non-US dollar currencies. Currency fluctuations may affect the revenues which the Group realises from its subsidiaries and associates and, in particular, its interest in Plethora. This exposes the Group to increased volatility in earnings as reported in US dollars due to fluctuations in foreign exchange rates. While foreign currencies are generally convertible into US dollars, there is no guarantee that they will continue to be so convertible or that fluctuations in the value of such currencies will not have an adverse effect on the Group.

Interest Rate Risk

The Group does not have any operating lines of credit or bank facilities. Therefore, the Group was not exposed to interest rate risk in the financial year concerned.

Risks Inherent to Plethora (the Company's most significant investment)

1. The timing and quantum of receipt of upfront, milestone and royalty income from strategic commercial marketing partners, which in itself is dependent on the successful partnering and the commercial launch of Fortacin™;
2. The management of Plethora's cost base and maintaining adequate working capital and ensuring sufficient funds are made available to complete the ongoing work with Pharmaserve (North West) Limited and Catalent Pharma Solutions, LLC and regulatory approval processes and bringing Fortacin™ to market;
3. The retention of key employees to complete the commercialisation process;
4. Delays and other unforeseen disruptions to the manufacturing and regulatory approval projects which could have an adverse impact on the commercial launch of Fortacin™ and future revenues; and
5. The exposure to competition from new generic entrants into the market.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

FINANCIAL INSTRUMENTS

The Group will operate both equity market and currency hedges from time to time. Investment is carefully controlled, in accordance with parameters set by the Board, in short-term situations where physical assets may be inappropriate. There is strict segregation between the investment management and settlement functions.

In the course of the Group's normal operations, margin deposits of varying amounts of cash are held by the Group's brokers. As at 31 December 2017, the amount of these margin deposits was nil (2016: Nil). In terms of the total operations of the Group, activities of this nature are of limited materiality.

FOREIGN CURRENCY

The Group had not taken out any currency hedge as the management is not aware of any material foreign currency risk against its investments in financial assets. Currently, the Group has no material financial liabilities denominated in foreign currencies other than US dollars.

MATERIAL ACQUISITIONS AND DISPOSALS

As previously announced, during the year the Group disposed of its entire interest in Condor Gold plc for an aggregate consideration of approximately US\$2.51 million in cash.

SEGMENTAL INFORMATION

For details of the segment information, please refer to note 5 to the Financial Statements.

EMPLOYEES

The Group, including subsidiaries but excluding associates, employed 19 employees at 31 December 2017 (2016: 19 employees). The remuneration policy is to reward key employees by a combination of salaries, profit related discretionary bonuses and share options and share awards, where appropriate. For employees below Board level, remuneration will be determined by the Director(s) responsible for the division whilst, for Directors, remuneration is determined by the remuneration committee of the Board (the "**Remuneration Committee**"). In all cases, profit related discretionary bonuses and grants of share rewards will be agreed by the Remuneration Committee.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

CORPORATE GOVERNANCE REPORT

THE CORPORATE GOVERNANCE CODE

The Company is committed to a high standard of corporate governance, for which the Directors are accountable to the Company, and has applied the principles of The Corporate Governance Code (the “**CG Code**”) in a manner consistent with best practices of a listed issuer. The primary responsibility for performing the corporate governance functions for the Company, as referred to in the terms of reference set out in Code Provision D.3.1 of the CG Code, rests with the Board of Directors (the “**Board**”), with the full support of the Company’s secretary and its executive management.

The Company continues to monitor developments in this area of corporate governance as they relate to listed issuers in Hong Kong.

As far as the Directors are aware, the Company has complied with the code provisions set out in the CG Code during the year ended 31 December 2017 and prior to the date of this report.

THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND EMPLOYEES

In compliance with Code Provision A.5.4 of The Code on Corporate Governance Practices (the “**Code on CG Practices**”), which was re-stated as Code Provision A.6.4 of the CG Code with effect from 1 April 2012, the Group adopted its code for securities transactions by Directors and employees (the “**Group’s Code**”), on exactly the terms and required standard contained in The Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to The Rules Governing the Listing of Securities (the “**HK Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**HK Stock Exchange**”), on 31 March 2004.

The Group’s Code was last revised on 10 December 2012 (to take effect from 1 January 2013) in order to comply with the amendments made to the Model Code consequential to the introduction of the statutory disclosure regime in respect of inside information under Part XIVA of The Securities and Futures Ordinance of Hong Kong (the “**SFO**”).

Having made specific enquiries, all Directors of the Company confirmed that they have complied with the Group’s Code during the year ended 31 December 2017 and prior to the date of this report.

Directors’ interests in securities and options of the Company are set out in details under the section headed “Directors’ Interests in Securities and Options” in the Directors’ Report.

The Group’s Code is available on the Company’s website: www.regentpac.com.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Composition

During the year ended 31 December 2017 and prior to the date of this report, there were no changes in the directorate.

The Board currently consists of six Directors, namely:

James Mellon (*Non-Executive Chairman of the Board*)

Jamie Alexander Gibson (*Executive Director and Chief Executive Officer*)

Charles David Andrew Comba (*Independent Non-Executive Director*)

Julie Oates (*Independent Non-Executive Director*)

Stawell Mark Searle (*Independent Non-Executive Director*)

Jayne Allison Sutcliffe (*Non-Executive Director*)

The Directors who held office during the year ended 31 December 2017 and up to the date of this report, accompanied by their respective biographical details, are listed in the Directors' Report under the section headed "Directors". It is the opinion of the Directors that the Board has the necessary skills and experience appropriate for discharging their duties as directors in the best interests of the Company. All Directors are aware of the required levels of fiduciary duties and duties of skill, care and diligence under Rule 3.08 of the HK Listing Rules.

In compliance with Code Provision A.3.2 of the CG Code, an updated list of the Company's Directors identifying their roles and functions are available from the "List of Directors" on the websites of the Company (www.regentpac.com) and the HK Stock Exchange (www.hkexnews.hk).

In accordance with Article 86(3) of the Company's Articles of Association, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the shareholders in general meeting, as an addition to the existing Board. Any Director so appointed shall retire at the next annual general meeting of the Company but shall then be eligible for re-election. Any Director who so retires shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting. In addition, Article 87 provides that at each annual general meeting of the Company one-third of the Directors for the time being shall retire from office by rotation, providing that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years (which is in compliance with Code Provision A.4.2 of the CG Code). A retiring Director shall be eligible for re-election.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Composition (Continued)

No Directors will retire pursuant to Article 86(3) at the forthcoming annual general meeting of the Company (the “**2018 Annual General Meeting**”), and Julie Oates and Mark Searle will retire by rotation pursuant to Article 87 at the 2018 Annual General Meeting. Both of them, being eligible, offer themselves for re-election. Details of the Directors proposed to be re-elected, as required under Rule 13.51(2) of the HK Listing Rules, are set out in the accompanying circular to shareholders. Rotational retirement and re-election of the retiring Directors will be dealt with by a separate resolution for each of the retiring Directors at the 2018 Annual General Meeting.

None of the Directors (including those proposed for re-election at the 2018 Annual General Meeting) has any unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment (other than statutory compensation), except that: (i) the advisory agreement of James Mellon specifies that his appointment as an adviser of the Company may be terminated by either party giving one year’s notice; and (ii) the service agreement of Jamie Gibson may be terminated by either party giving one year’s notice.

None of the Directors (including those proposed for re-election at the 2018 Annual General Meeting) has any unexpired service contract with the Company or any of its subsidiaries, which was entered into on or before 31 January 2004 and was exempt from the shareholders’ approval requirement under Rule 13.68 of the HK Listing Rules but is required to be disclosed in the Company’s annual report pursuant to Paragraph 14A of Appendix 16 to the HK Listing Rules.

Save as disclosed in this annual report, none of the Directors has any relationships (either financial or business or family or other material/relevant relationship(s)) with any other Directors, senior management or substantial or controlling shareholders of the Company.

Save as disclosed in this annual report, none of the Directors has any connections (either being a director or an employee) with any company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Board meetings and attendance and written resolutions

During the year ended 31 December 2017, the Directors held meetings at least at a quarterly interval and in total four Board meetings were held during the year. The attendance of the respective Directors at the Board meetings are set out below:

| Name of Director | Number of meetings held | Number of meetings attended | Number of meetings absent | Attendance rate (%) |
|------------------|-------------------------|-----------------------------|---------------------------|---------------------|
| James Mellon | 4 | 4 | 0 | 100% |
| Jamie Gibson | 4 | 4 | 0 | 100% |
| David Comba | 4 | 3 | 1 | 75% |
| Julie Oates | 4 | 4 | 0 | 100% |
| Mark Searle | 4 | 4 | 0 | 100% |
| Jayne Sutcliffe | 4 | 1 | 3 | 25% |

Subsequent to the year end date and prior to the date of this report, the Directors held one Board meeting, which was attended by all Directors.

Article 116(2) of the Company's Articles of Association provides that Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

Sufficient notices were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and an agenda and accompanying board papers were given to all Directors in a timely manner before the appointed date of the Board meetings. Adequate information was also supplied by the management to the Board in a timely manner to enable it to make informed decisions, which were made in the best interests of the Company. Directors are always given opportunity to include matters in the agenda of the Board meetings.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Board meetings and attendance and written resolutions (Continued)

Draft minutes of the Board meetings were circulated to all Directors for their comment and approval, before the final versions of the minutes were signed and initialled by all Directors who attended the meetings. All minutes of Board meetings are kept by the Company Secretary, which are open for inspection by any Director.

Resolutions were also passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary. In any event, the matters in which a substantial shareholder or a Director has a conflict of interest, which the Board has determined to be material, will be considered at a Board meeting but not to be dealt with by way of circulation of written resolutions or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a Board meeting). Independent Non-Executive Directors, who, and whose close associates, have no material interest in the transaction will also be asked to attend such Board meeting. Pursuant to Rule 13.44 of the HK Listing Rules and Article 103 of the Company's Articles of Association, interested Directors will be required to abstain from voting on any Board resolution in which they or any of their close associates have a material interest and that they shall not be counted in the quorum present at the relevant Board meeting. Further, the Company established a connected transactions committee (the "**Connected Transactions Committee**") on 20 October 2008 (as detailed below).

General meetings and attendance

The Company held its annual general meeting for Year 2017 (the "**2017 Annual General Meeting**") on 2 June 2017, which was attended and chaired by Jamie Gibson, the Executive Director and Chief Executive Officer of the Company.

Due to other business commitments, James Mellon, the Non-Executive Chairman of the Board, were unable to attend and chair the 2017 Annual General Meeting, with apologies duly noted. The Directors of the Company had appointed Jamie Gibson to take the chair of the meeting.

Shareholders also noted that:

- (i) James Mellon was also the Chairman of the Company's nomination committee (the "**Nomination Committee**");
- (ii) Julie Oates was the Chairlady of the Company's audit committee (the "**Audit Committee**"); and
- (iii) Mark Searle was the Chairman of the Company's remuneration committee (the "**Remuneration Committee**").

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

General meetings and attendance (Continued)

The Chairman or Chairlady of the above board committees were not available to attend the 2017 Annual General Meeting due to other business commitments, with apologies duly noted. They had, in accordance with Code Provision E.1.2 of the CG Code, appointed Jamie Gibson to answer any questions shareholders might raise at the meeting with respect to the respective committees.

In accordance with Code Provision E.1.2 of the CG Code, the Company had invited representatives of its external Auditor, BDO Limited, to attend the 2017 Annual General Meeting to answer questions about the audit of the Company's financial statements, including the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

During the year ended 31 December 2017, the Company did not hold any extraordinary general meeting.

The attendance of the respective Directors at the general meetings are set out below:

| Name of Director | Number of meetings held | Number of meetings attended | Number of meetings absent | Attendance rate (%) |
|------------------|-------------------------|-----------------------------|---------------------------|---------------------|
| James Mellon | 1 | 0 | 1 | 0.00% |
| Jamie Gibson | 1 | 1 | 0 | 100.00% |
| David Comba | 1 | 0 | 1 | 0.00% |
| Julie Oates | 1 | 0 | 1 | 0.00% |
| Mark Searle | 1 | 0 | 1 | 0.00% |
| Jayne Sutcliffe | 1 | 0 | 1 | 0.00% |

Subsequent to the year end date and prior to the date of this report, the Company did not hold any extraordinary general meeting.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Time commitment

As for the contribution required from a Director to perform his responsibilities to the Company, the Board has determined that:

- (i) Executive Directors are full-time employees of the Company and thus must contribute all their working time to managing the Company's affairs; and
- (ii) Non-Executive Directors and Independent Non-Executive Directors should contribute no less than 12 days per annum on the Company's business.

The Board has also determined that an annual review should be conducted on the above contribution requirements and whether each Director has contributed sufficient time performing their responsibilities to the Company during the year. An annual review of the Directors' contribution to the Company was conducted in March 2017, with no exceptions being reported, such that the Directors were able to perform their duties and responsibilities in compliance with the HK Listing Rules and the CG Code.

Subsequent to the year end date, the Board conducted a review of the Directors' contribution to the Company in March 2018, with no exceptions being reported, such that the Directors were able to perform their duties and responsibilities in compliance with the HK Listing Rules and the CG Code.

Further, the Directors have disclosed, on a semi-annual basis, to the Company the number and nature of offices held in public companies and organisations and other significant commitments and, on a timely basis, any changes to their commitments, including the identity of the public companies or organisations and an indication of the time involved.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

The Board and management

The Directors receive timely, regular and necessary management and other information to enable them to fulfill their duties, including regular updates of the development in the laws and regulations applicable to the Company. The Board has agreed a procedure for the Directors to have access to independent professional advice at the Company's expense and to the advice and services of the Company Secretary.

Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company.

The Board leads the Company with good governance and strategic direction. It is committed to make decisions in the best interests of the Company. It also reviews the Group's control and accountability framework in line with the HK Listing Rules and the Company's internal charter. Responsibility for day-to-day management of the business lies with the executive management, with the Board agreeing the overall financial plan. Accordingly, the following duties of the Board have been delegated to the management:

- (i) the daily operations of the Company, including the management of all aspects of the Company's principal activities;
- (ii) the financial operations of the Company, including the preparation of the monthly management accounts, interim report and annual report and the timely distribution to the Board;
- (iii) the company secretarial activities, including the preparation and timely despatch of minutes of Board meetings; and
- (iv) corporate and regulatory issues, including corporate strategy and planning, internal controls and compliance, providing that the following shall always be subject to approval by a resolution of the Board:
 - material capital commitment (material being defined as representing more than 5 per cent of the Company's net assets based on the most recent financial information on hand);
 - issuance, purchase or redemption of securities (including options);
 - significant contracts with any Director (as referred to in Paragraph 15 of Appendix 16 to the HK Listing Rules) and connected transactions;
 - relevant transactions (which are loans, quasi loans and credit transactions) with any Director as referred to in The Companies Ordinance (Chapter 622) of Hong Kong; and
 - management contracts of service with any Director (as referred to in The Companies Ordinance (Chapter 622) of Hong Kong) and bank borrowings.

In compliance with Code Provision A.3.2 of the CG Code, details of the composition of the various committees of the Board are set out in the Directors' Report under the section headed "Directors", which are available from the "List of Directors" on the websites of the Company (www.regentpac.com) and the HK Stock Exchange (www.hkexnews.hk).

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Directors' training

All Directors are mindful that they should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

By emails circulated by the Company Secretary from time to time, Directors are provided with updates on the HK Listing Rules and the relevant statutes, rules and regulations. Updates which were circulated during the year ended 31 December 2017 included:

- The letter in relation to the "Publication of Review of Disclosure in Issuers' Annual Reports to Monitor Rule Compliance – Report 2016" issued by the HK Stock Exchange on 25 January 2017;
- The press release in relation to "SFC Emphasises Liabilities of Listed Companies' Senior Management" issued by the Securities and Futures Commission on 24 May 2017;
- The letter in relation to the "Publication of the Financial Statements Review Programme Report 2016" issued by the HK Stock Exchange on 14 July 2017;
- The letter in relation to the "Publication of Exchange's Report on Listed Issuers' Corporate Governance Practices" issued by the HK Stock Exchange on 13 October 2017; and
- The letter in relation to the "Consultation Conclusions on the Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules" issued by the HK Stock Exchange on 15 December 2017.

Directors also reported that they have attended various training programmes and seminars during the year ended 31 December 2017 (which were funded by the Company upon request) and confirmed that they have complied with Code Provision A.6.5 of the CG Code.

Subsequent to the year end date and prior to the date of this report, updates, among other things, were circulated by the Company Secretary to the Directors on:

- The letter in relation to the "Publication of Review of Disclosure in Issuers' Annual Reports to Monitor Rule Compliance – Report 2017" issued by the HK Stock Exchange on 26 January 2018.

Board evaluation

In compliance with Code Provision B.1.9 of the CG Code, the Board has determined that an annual evaluation should be conducted on the Board's performance. An annual performance evaluation was conducted in March 2017, with no exceptions being reported.

Subsequent to the year end date, the Board conducted an evaluation of the Board's performance in March 2018, with no exceptions being reported.

Directors' and officers' liability insurance policy

In compliance with Code Provision A.1.8 of the CG Code, the Company has arranged appropriate directors' and officers' liability insurance policy in respect of legal action against its Directors, which is reviewed and renewed on an annual basis.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with the Rules 3.10(1) and 3.10A of the HK Listing Rules, the Board currently comprises three Independent Non-Executive Directors, namely David Comba, Julie Oates and Mark Searle, representing more than one-third of the Board.

Confirmation of independence

Pursuant to paragraph 12B of Appendix 16 to the HK Listing Rules, each of the Independent Non-Executive Directors has confirmed by an annual confirmation: (i) that he/she complies with each of the independence criteria referred to in Rule 3.13(1) to (8); (ii) that he/she has no past or present financial or other interest in the business of the Company or its subsidiaries or any connection with any core connected person (as such term is defined in the HK Listing Rules) of the Company; and (iii) that there are no other factors that may affect his/her independence at the same time as the submission of his/her Declaration and Undertaking in Form B of Appendix 5 to the HK Listing Rules.

The Directors consider that all three Independent Non-Executive Directors continue to be independent under the independence criteria referred to in Rule 3.13(1) to (8) and are capable of efficiently exercising independent judgement. Among them, Julie Oates has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2). Julie Oates and Mark Searle serve on the Audit Committee, the Connected Transactions Committee, the Nomination Committee and the Remuneration Committee, while Julie Oates is the Chairlady of the first two committees and Mark Searle is the Chairman of the Remuneration Committee. And, David Comba is a member of the Chapter 18 technical committee (the “**Technical Committee**”).

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Code Provision A.4.3

Code Provision A.4.3 of the CG Code provides that serving for more than 9 years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves for more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should include the reasons why the board believes he is still independent and should be elected.

- (1) In accordance with Article 87 of the Company's Articles of Association, James Mellon and David Comba retired by rotation at the 2017 Annual General Meeting. Both of them, being eligible, offered themselves for re-election. In particular regard to Code Provision A.4.3, it was noted that David Comba, who was appointed as an Independent Non-Executive Director on 27 October 2005, was last re-elected as a Director of the Company at the Company's annual general meeting held for Year 2014 (while he would be serving for his 9th year in 2014).

At a meeting of the Nomination Committee held in March 2017, James Mellon and Jamie Gibson were of the view that each of David Comba, Julie Oates and Mark Searle continued to be independent under the independence criteria set out in Rule 3.13(1) to (8) of the HK Listing Rules and had proved to be capable of efficiently exercising independent judgement. Among them, Julie Oates had the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2). Julie Oates and Mark Searle served on the Audit Committee, the Connected Transactions Committee, the Nomination Committee and the Remuneration Committee (while Julie Oates was the Chairlady of the first two committees and Mark Searle was the Chairman of the Remuneration Committee), and David Comba was a member of the Technical Committee. Accordingly, the Directors considered that David Comba should be re-elected as an Independent Non-Executive Director at the 2017 Annual General Meeting. Such view was noted at the Board Meeting held in March 2017.

Such reasoning, accompanied by the details of the Directors proposed to be re-elected, as required under Rule 13.51(2) and Code Provision A.4.3, were duly set out in the shareholders' circular issued by the Company on 28 April 2017.

The Company used to deal with the rotational retirement and re-election of the retiring Directors by a separate resolution for each of the retiring Directors at the Company's annual general meetings.

Accordingly, each of the retiring Directors (including David Comba) was duly re-elected as a Director of the Company by a separate resolution at the 2017 Annual General Meeting.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Code Provision A.4.3 (Continued)

- (2) At the 2018 Annual General Meeting, Julie Oates and Mark Searle will retire by rotation in accordance with Article 87 of the Company's Articles of Association. Both of them, being eligible, offer themselves for re-election. In particular regard to Code Provision A.4.3, it is noted that:
- (i) Julie Oates, who was appointed as an Independent Non-Executive Director on 28 September 2004, was last re-elected as a Director of the Company at the Company's annual general meeting held for Year 2015; and
 - (ii) Mark Searle, who was appointed as an Independent Non-Executive Director on 31 October 2001, was last re-elected as a Director of the Company at the Company's annual general meeting held for Year 2015.

At a meeting of the Nomination Committee held in March 2018, James Mellon and Jamie Gibson were of the view that each of David Comba, Julie Oates and Mark Searle continued to be independent under the independence criteria set out in Rule 3.13(1) to (8) of the HK Listing Rules and had proved to be capable of efficiently exercising independent judgement. Among them, Julie Oates had the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2). Each of the independent Directors continued to serve on the respective committees (as noted above). Accordingly, the Directors considered that Julie Oates and Mark Searle should be re-elected as Independent Non-Executive Directors at the 2018 Annual General Meeting. Such view was noted at a Board Meeting held in March 2018.

Such reasoning, accompanied by the details of the Directors proposed to be re-elected, as required under Rule 13.51(2) and Code Provision A.4.3, are duly set out in the accompanying shareholders' circular.

Rotational retirement and re-election of the retiring Directors will be dealt with by a separate resolution for each of the retiring Directors at the 2018 Annual General Meeting.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

James Mellon has been the Non-Executive Chairman of the Board since October 2005. The Chairman provides leadership for the Board. He also ensures that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner.

Jamie Gibson has been the Chief Executive Officer since May 2002 and he is responsible for the day-to-day management of the Company's business.

In order to ensure a balance of power and authority, the roles of the Chairman of the Board and the Chief Executive Officer are segregated and the division of their responsibilities has been established by the respective written terms of reference, in compliance with Code Provision A.2.1 of the former Code on CG Practices and later the CG Code. The Chairman, however, has delegated the following duties to the Chief Executive Officer or the Company Secretary so that:

- (i) the Chief Executive Officer is empowered to draw up and approve the agenda for each Board meeting taking into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda; and
- (ii) the Company Secretary is empowered to, with the guidance from the Chief Executive Officer, despatch the notice, agenda and accompanying Board papers to all Directors in a timely manner.

Pursuant to Code Provision A.2.7 of the CG Code, the Non-Executive Chairman of the Board held a private meeting in March 2017 with the Non-Executive Directors (including the Independent Non-Executive Directors), without the presence of the Executive Director, which was attended by all Non-Executive Directors.

Subsequent to the year end date and prior to the date of this report, the Non-Executive Chairman of the Board held a private meeting in March 2018 with the Non-Executive Directors (including the Independent Non-Executive Directors), without the presence of the Executive Director, which was attended by all Non-Executive Directors.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

The letter of appointment of James Mellon (for the position as Non-Executive Chairman of the Board) does not specify a term for his appointment. However, in compliance with Code Provision A.4.1, his appointment may be terminated by either party giving 30 calendar days' notice, and he is also subject to the directors' retirement provisions as set out in the Company's Articles of Association. Further, Mr Mellon's advisory agreement specifies that his appointment as an adviser of the Company may be terminated by either party giving one year's notice.

The letter of appointment of each of the remaining four Non-Executive Directors (including the independent Directors) provides that his/her appointment may be terminated by either party giving 30 calendar days' notice and he/she is also subject to the directors' retirement provisions as set out in the Company's Articles of Association.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 5 November 2004, with its specific written terms of reference which deal with its authority and duties first adopted on 18 March 2005 in compliance with the code provisions in B.1 of the former Code on CG Practices. Its terms of reference were last amended on 13 March 2012 in order to comply with the relevant code provisions in the CG Code which were designated to take effect on 1 April 2012. In compliance with Rule 3.25 of the HK Listing Rules, the committee currently comprises the Non-Executive Chairman of the Board (James Mellon) and two Independent Non-Executive Directors, namely Julie Oates and Mark Searle, and is responsible to review and approve the remuneration packages of the Directors and the employees. The committee is chaired by Mark Searle.

Since its establishment, the Remuneration Committee has adopted the model where the committee should determine, with delegated responsibility, remuneration packages of individual Executive Directors and senior management, being the model referred to in Code Provision B.1.2(c) of the CG Code. No Directors or any of their associates are involved in deciding their own remuneration.

During the year ended 31 December 2017 and prior to the date of this report, the Remuneration Committee did not hold any meetings or pass any written resolutions.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE (Continued)

The attendance of the respective Directors at the Remuneration Committee's meetings are set out below:

| Name of Director | Number of meetings held | Number of meetings attended | Number of meetings absent | Attendance rate (%) |
|------------------|-------------------------|-----------------------------|---------------------------|---------------------|
| Mark Searle | 0 | 0 | 0 | Not applicable |
| James Mellon | 0 | 0 | 0 | Not applicable |
| Julie Oates | 0 | 0 | 0 | Not applicable |

Article 116(2) of the Company's Articles of Association provides that Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

Where meetings were held, sufficient notices were given to all committee members so as to ensure each of them had an opportunity to attend the meetings, and an agenda and accompanying board papers were given to all committee members in a timely manner before the appointed date of the committee's meetings. Adequate information was also supplied by the management to the committee in a timely manner to enable it to make informed decisions, which were made in the best interests of the Company. Committee members are always given opportunity to include matters in the agenda of the committee's meetings.

Draft minutes of the committee's meetings were circulated to all members for their comment and approval, before the final versions of the minutes were signed and initialled by all members who attended the meetings. All minutes of committee's meetings are kept by the Company Secretary, which are open for inspection by any member of the committee.

In compliance with Code Provision B.1.3 of the CG Code, the terms of reference of the Remuneration Committee are available on the websites of the Company (www.regentpac.com) and the HK Stock Exchange (www.hkexnews.hk).

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Nomination Committee was established on 13 March 2012, with its specific written terms of reference which deal with its authority and duties, in compliance with the code provisions in A.5 of the CG Code which were designated to take effect on 1 April 2012. In compliance with Code Provision A.5.1 of the CG Code, the committee currently comprises the Non-Executive Chairman of the Board (James Mellon) and two Independent Non-Executive Directors, namely Julie Oates and Mark Searle, and is responsible for the nomination of Directors of the Company and the review of the composition of the Board. The committee is chaired by James Mellon.

During the year ended 31 December 2017, the Nomination Committee held one meeting with respect to: (i) an annual review of the structure, size and composition (including skills, knowledge, experience and diversity of perspectives) of the Board; (ii) an annual review of the "Board Diversity Policy" (as set out in details below); (iii) an annual review of the independence of the Independent Non-Executive Directors; and (iv) the re-appointment of David Comba (being an Independent Non-Executive Director serving for more than 9 years) as a Director of the Company at the 2017 Annual General Meeting. The attendance of the respective Directors at the Nomination Committee's meetings are set out below:

| Name of Director | Number of meetings held | Number of meetings attended | Number of meetings absent | Attendance rate (%) |
|------------------|-------------------------|-----------------------------|---------------------------|---------------------|
| James Mellon | 1 | 1 | 0 | 100.00% |
| Julie Oates | 1 | 1 | 0 | 100.00% |
| Mark Searle | 1 | 1 | 0 | 100.00% |

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE (Continued)

Subsequent to the year end date and prior to the date of this report, the Nomination Committee held one meeting, which was attended by all members of the committee, with respect to: (i) an annual review of the structure, size and composition (including skills, knowledge, experience and diversity of perspectives) of the Board; (ii) an annual review of the “Board Diversity Policy” (as set out in details below); (iii) an annual review of the independence of the Independent Non-Executive Directors; and (iv) the re-appointment of Julie Oates and Mark Searle (being Independent Non-Executive Directors serving for more than 9 years) as Directors of the Company at the 2018 Annual General Meeting.

Article 116(2) of the Company’s Articles of Association provides that Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

Sufficient notices were given to all committee members so as to ensure each of them had an opportunity to attend the meetings, and an agenda and accompanying board papers were given to all committee members in a timely manner before the appointed date of the committee’s meetings. Adequate information was also supplied by the management to the committee in a timely manner to enable it to make informed decisions, which were made in the best interests of the Company. Committee members are always given opportunity to include matters in the agenda of the committee’s meetings.

Draft minutes of the committee’s meetings were circulated to all members for their comment and approval, before the final versions of the minutes were signed and initialled by all members who attended the meetings. All minutes of committee’s meetings are kept by the Company Secretary, which are open for inspection by any member of the committee.

During the year ended 31 December 2017 and prior to the date of this report, there were no changes in the directorate.

In compliance with Code Provision B.5.3 of the CG Code, the terms of reference of the Nomination Committee are available on the websites of the Company (www.regentpac.com) and the HK Stock Exchange (www.hkexnews.hk).

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE (Continued)

Board Diversity Policy

In anticipation of the new provisions of the CG Code concerning board diversity taking effect on 1 September 2013, the Nomination Committee adopted the “Board Diversity Policy” of the Company on 20 March 2013, which is set out below.

The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective.

The Nomination Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Directors. The Nomination Committee also oversees the conduct of the annual review of Board effectiveness.

- In reviewing Board composition, the Nomination Committee will consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience and background on the Board.
- In identifying suitable candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity of the Board.
- As part of the annual performance evaluation of the effectiveness of the Board, Board committees and individual Directors, the Nomination Committee will consider the balance of skills, experience, independence and knowledge of the Company on the Board and the diversity representation of the Board.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE (Continued)

Board Diversity Policy (Continued)

The Nomination Committee will discuss and agree annually all measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

In order to set meaningful objectives, the Nomination Committee will assess its current diversity levels and identify where gaps exist. Measurable objectives will then be developed which are tailored towards improving diversity in areas where most improvement is needed.

The Company acknowledges that there are a number of different types of measurable objectives which may be implemented to assist in meeting its diversity goals, including:

- procedural and structural objectives: for example, implementing internal review and reporting procedures or ensuring that candidates are interviewed by a diverse selection/interview panel;
- diversity targets: setting specific diversity targets, for example, setting targets for the number of women on the Board and implementing timeframes for this to occur by; and
- initiatives and programs: for example, identifying appropriate initiatives and programs and determining how the initiative will operate, who will be responsible for implementing it and setting a timetable for its introduction.

The Nomination Committee will review the policy on Board diversity annually, which will include an assessment of the effectiveness of the policy. The Nomination Committee will discuss any revisions that may be required and recommend any such revisions to the Board for approval.

An annual review of the Board Diversity Policy was conducted in March 2017. The Nomination Committee was of the view that the Company's Board Diversity Policy was suitable for the size of the Company.

Subsequent to the year end date, the Nomination Committee conducted a review of the Board Diversity Policy in March 2018, which concluded with the view that the Company's Board Diversity Policy was suitable for the size of the Company.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTION

The primary responsibility for performing the corporate governance functions for the Company, as referred to in the terms of reference set out in Code Provision D.3.1 of the CG Code, rests with the Board, with the full support of the Company's secretary and its executive management.

During the year ended 31 December 2017 and prior to the date of this report, among other things, the Board, performed the general corporate governance functions for the Company, including those referred to in the terms of reference set out in Code Provision D.3.1 of the CG Code.

AUDIT COMMITTEE

The audited financial statements of the Company for the year ended 31 December 2017 have been reviewed by the Audit Committee.

The Audit Committee was established on 11 March 1999 with its specific written terms of reference which deal with its authority and duties. Its terms of reference were subsequently amended in order to incorporate the amendments made from time to time to the relevant code provisions of the former Code on CG Practices and were recently amended on 17 April 2015 in order to comply with the code provisions in the CG Code relevant to risk management and internal control systems which were designated to take effect on 1 January 2016. The committee's purpose is to assist the Board in:

- providing an independent review of the effectiveness of the Company's financial reporting process;
- evaluating and determining the nature and extent of the risks the Board is willing to take in achieving the Company's strategic objectives and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems; and
- overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

In compliance with Rule 3.21 of the HK Listing Rules, the Audit Committee currently comprises the Non-Executive Chairman of the Board (James Mellon) and two Independent Non-Executive Directors, namely Julie Oates and Mark Searle. The committee is chaired by Julie Oates, who has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2).

During the year ended 31 December 2017, the Audit Committee held two meetings with respect to: (i) the internal control and risk management review, the review and approval of the Company's audited financial statements for the year ended 31 December 2016, an annual evaluation of the external and internal auditors of the Company, and an annual evaluation of the performance of the committee; and (ii) the internal control and risk management review and the review and approval of the Company's interim financial statements for the six months ended 30 June 2017 respectively, with the presence of the external and internal auditors for the relevant resolutions. The attendance of the respective Directors at the Audit Committee's meetings are set out below:

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (Continued)

| Name of Director | Number of meetings held | Number of meetings attended | Number of meetings absent | Attendance rate (%) |
|------------------|-------------------------|-----------------------------|---------------------------|---------------------|
| Julie Oates | 2 | 2 | 0 | 100.00% |
| James Mellon | 2 | 2 | 0 | 100.00% |
| Mark Searle | 2 | 2 | 0 | 100.00% |

Subsequent to the year end date and prior to the date of this report, the Audit Committee held one meeting which was attended by all members of the committee, with the presence of the external and internal auditors for the relevant resolutions, with respect to the internal control and risk management review, the review and approval of the Company's audited financial statements for the year ended 31 December 2017, an annual evaluation of the external and internal auditors of the Company, and an annual evaluation of the performance of the committee.

Article 116(2) of the Company's Articles of Association provides that Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

Sufficient notices were given to all committee members so as to ensure each of them had an opportunity to attend the meetings, and an agenda and accompanying board papers were given to all committee members in a timely manner before the appointed date of the committee's meetings. Adequate information was also supplied by the management to the committee in a timely manner to enable it to make informed decisions, which were made in the best interests of the Company. Committee members are always given opportunity to include matters in the agenda of the committee's meetings.

Draft minutes of the committee's meetings were circulated to all members for their comment and approval, before the final versions of the minutes were signed and initialled by all members who attended the meetings. All minutes of committee's meetings are kept by the Company Secretary, which are open for inspection by any member of the committee.

The Audit Committee discharged their duties in accordance with their terms of reference with no exceptions reported.

In compliance with Code Provision C.3.4 of the CG Code, the terms of reference of the Audit Committee are available on the websites of the Company (www.regentpac.com) and the HK Stock Exchange (www.hkexnews.hk).

CORPORATE GOVERNANCE REPORT

CONNECTED TRANSACTIONS COMMITTEE

The Company established the Connected Transactions Committee on 20 October 2008 to review and monitor any conflict of interests that the Group may have with any of its directors, employees or members and, moreover, any actual or potential connected or related party transaction (including connected transactions exempted under the HK Listing Rules) that the Group is proposing to enter into, including any approvals thereof. The committee comprises two Independent Non-Executive Directors, namely Julie Oates (the Chairlady) and Mark Searle, and the Executive Director and Chief Executive Officer (Jamie Gibson).

Since its establishment, the Connected Transactions Committee did not hold any meeting.

The terms of reference of the Connected Transactions Committee are available on the Company's website: www.regentpac.com.

(I) Further subscription of new shares in The Diabetic Boot Company Limited

On 20 April 2016, the Company announced that on 19 April 2016 it entered into a binding term sheet (the "**Binding Term Sheet**") with The Diabetic Boot Company Limited ("**Diabetic Boot**") in respect of a further subscription by the Company, in three equal conditional tranches, of up to 130,434 new shares in Diabetic Boot ("**Diabetic Boot Share(s)**") at £23 per Diabetic Boot Share in cash, together with up to 65,217 fundraising warrants of Diabetic Boot, in three equal conditional tranches, for an aggregate consideration of up to £2,999,982 (the "**Subscription**").

The three tranches had final dates at which the relevant conditions/performance milestones (as set out in details in the said announcement) for each such tranche had to be satisfied by Diabetic Boot (as determined by the Company, acting reasonably) or waived by the Company in writing, being 31 May 2016, 30 September 2016 and 31 December 2016 respectively. The Company essentially had: (i) a conditional obligation to acquire the new shares and warrants in the first tranche and the second tranche (each of 43,478 new Diabetic Boot Shares and 21,739 fundraising warrants) upon Diabetic Boot fulfilling or satisfying the conditions/performance milestones pertaining to the respective tranches as set out in the Binding Term Sheet or such conditions/performance milestones being waived by the Company; and (ii) a right (option) to acquire the new shares and warrants in the third tranche (being 43,478 new Diabetic Boot Shares and 21,739 fundraising warrants) irrespective of whether Diabetic Boot was able to fulfill the conditions/performance milestones pertaining to such tranche as set out in the Binding Term Sheet.

Given that: (i) James Mellon (then the Non-Executive Co-Chairman of the Board of the Company holding, by himself and his associates, 22.32 per cent of the total issued share capital of the Company); and (ii) Anthony Baillieu (whose connection with the Company as referred to below, then holding, through a nominee company owned by his family which held shares and cash to the individual family members' accounts, 0.001 per cent of the total issued share capital of the Company), both being shareholders of Diabetic Boot, were connected persons of the Group, the further investment into Diabetic Boot by way of the first tranche and the second tranche of the Subscription, together with the relevant number of fundraising warrants, constituted a connected transaction of the Company under Chapter 14A of the HK Listing Rules. However, neither of the above-mentioned Directors had a material interest in the further investment into Diabetic Boot by way of the first tranche and the second tranche under the Binding Term Sheet, and such investment was exempted from the circular (including independent financial advice) and shareholders' approval requirements under the de minimis provisions of Rule 14A.76(2), and James Mellon abstained from voting on the board resolution approving the Subscription. The views of the Independent Non-Executive Directors on the subscriptions were set out in the said announcement.

CORPORATE GOVERNANCE REPORT

CONNECTED TRANSACTIONS COMMITTEE (Continued)

(1) Further subscription of new shares in The Diabetic Boot Company Limited (Continued)

Anthony Baillieu was formerly a Director of the Company having resigned in October 2005, but remained as a director of two of the Company's dormant subsidiaries (being AstroEast.com Limited and AstroEast.com (Hong Kong) Limited), holding such positions since January 2000. Mr Baillieu then held, through a nominee company owned by his family, but to his own individual account, 0.001 per cent of the total issued share capital of the Company.

The subscription of the first tranche of 43,478 new Diabetic Boot Shares and 21,739 fundraising warrants for an aggregate amount of cash consideration of £ 999,994 was completed on 11 May 2016, upon the conditions that were required to be satisfied in respect of the first tranche having been satisfied.

As Diabetic Boot failed to satisfy the performance milestones pertaining to the second tranche and the third tranche (each of 43,478 new Diabetic Boot Shares and 21,739 fundraising warrants, for all aggregate amount of cash consideration of £ 1,999,988) to the Company's satisfaction (acting reasonably) by the specified dates and without the waiver given by the Company (in writing): (i) the Company ceased to have any obligation whatsoever to subscribe into the second tranche of the Subscription and its obligations in respect thereof terminated automatically on 30 September 2016; and (ii) the Company elected not to subscribe into the third tranche of the Subscription and such option lapsed automatically and became void on 31 December 2016, in each case, without any liability or continuing obligation to Diabetic Boot.

(2) Disposal of shares in Condor Gold plc

On 13 January 2017, the Company announced that on 12 January 2017 it disposed of, among others, an aggregate of 1,636,998 shares in Condor Gold plc to James Mellon and Galloway Limited ("**Galloway**", a company wholly owned by the trustee of a settlement, of which James Mellon was the sole beneficiary) for an aggregate amount of cash consideration of £ 809,783.99.

Given that James Mellon (the Non-Executive Chairman of the Board of the Company then holding, by himself and his associates, 22.32 per cent of the total issued share capital of the Company) and Galloway were connected persons of the Group, the above disposal constituted a connected transaction of the Company under Chapter 14A of the HK Listing Rules. However, such disposal was exempted from the circular (including independent financial advice) and shareholders' approval requirements under the de minimis provisions of Rule 14A.76(2), and James Mellon abstained from voting on the board resolution approving such disposal. The views of the Independent Non-Executive Directors on the disposal were set out in the said announcement.

CORPORATE GOVERNANCE REPORT

INSIDE INFORMATION COMMITTEE

In view of the introduction of the statutory disclosure regime in respect of inside information under Part XIVA of the SFO and the consequential amendments made to the HK Listing Rules, which took effect on 1 January 2013, the Company established an inside information committee on 28 January 2013 to review and monitor the compliance of the Company with its statutory disclosure obligations under Part XIVA of the SFO, the HK Listing Rules and other applicable laws and regulations in respect of disclosure and transparency relevant to the Company. The committee comprises Jamie Gibson (the Executive Director and the Chief Executive Officer), the Company Secretary, the Chief Financial Officer and the General Counsel.

AUDITOR

Remuneration

The Audit Committee reviewed and approved the auditor's remuneration on the basis that it was fair and reasonable for the size and operations of the Group and such remuneration was in the best interests of the Company. Apart from audit services, BDO Tax Limited provided non-audit services in respect of tax services, for which BDO Tax Limited received a fee of approximately US\$7,000 during the year ended 31 December 2017.

Attendance at general meetings

In accordance with Code Provision E.1.2 of the CG Code, at the Company's invitation, representatives of its external Auditor, BDO Limited, attended the 2017 Annual General Meeting to answer questions about the audit of the Company's financial statements, including the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

COMPANY SECRETARY

The Company Secretary of the Company is Fung Yuk Bing (Stella), who is a full-time employee of the Group and reports to the Board and the Chief Executive Officer. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable law, rules and regulations, are followed.

Ms Fung is an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Company Secretaries. She has confirmed that she has complied with Rule 3.29 of the HK Listing Rules and has taken no less than 15 hours of relevant professional training during the year ended 31 December 2017.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS AND COMMUNICATION

Shareholders' communication policy

The Company has adopted on 13 March 2012 the following shareholders' communication policy (including the procedures for shareholders: (i) to requisition an extraordinary general meeting; or (ii) to put forward proposals at the Company's general meetings; or (iii) to put enquiries to the Directors), which is available from the "Corporate Documents" on the website of the Company (www.regentpac.com):

(1) Article 58 of the Company's Articles of Association provides that the Board may whenever thinks fit call extraordinary general meetings, and:

- two or more Members holding at the date of deposit of the requisition not less than one-fifth of the paid up capital of the Company carrying the right of voting at general meetings of the Company or
- any one Member which is a clearing house

shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to them by the Company.

(2) Shareholders who wish to communicate with the Company, including: (i) to requisition an extraordinary general meeting pursuant to Article 58 of the Company's Articles of Association; (ii) to put forward proposals at the Company's general meetings; or (iii) to put enquiries to the Directors, should write to the Chief Executive Officer or the Company Secretary of the Company (contact details set out below), accompanied by the details of their proposals.

(3) The Chief Executive Officer of the Company is currently Jamie Gibson whose email address is: jamie.gibson@regentpac.com.

The Company Secretary of the Company is currently Stella Fung whose email address is: stella.fung@regentpac.com.

The Company's address and telephone and facsimile numbers are set out on its website.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS AND COMMUNICATION (Continued)

Procedures for shareholders to propose a person for election as a Director of the Company

The Company has adopted on 13 March 2012 the following procedures for shareholders to propose a person for election as a Director of the Company, which are available from the "Corporate Documents" on the website of the Company (www.regentpac.com) in compliance with Rule 13.51D of the HK Listing Rules:

- (1) Article 86(1) to (3) of the Company's Articles of Association provides that:
 - (1) Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There shall be a maximum of fifteen Directors unless otherwise determined by resolution of the Board. The Directors shall be elected or appointed in the first place by the subscribers to the Memorandum of Association or by a majority of them and thereafter in accordance with Article 87 and shall hold office until their successors are elected or appointed.
 - (2) Subject to the Articles and the Companies Law (Revised) of the Cayman Islands, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board.
 - (3) The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the Members in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the Members in general meeting. Subject to the provisions of these Articles, any Director so appointed shall retire at the next Annual General Meeting but shall then be eligible for election and any Director who so retires shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting.
- (2) Shareholders who wish to propose a person for election as a Director of the Company should write to the Chief Executive Officer or the Company Secretary of the Company (contact details set out below), accompanied by the detailed resume of the candidate.
- (3) The Chief Executive Officer should forward the shareholder's proposal, as soon as practicable upon receipt, to the Company's Nomination Committee for consideration.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS AND COMMUNICATION (Continued)

Procedures for shareholders to propose a person for election as a Director of the Company (Continued)

- (4) If the Nomination Committee considers that the candidate may be appropriate for election as a Director of the Company, the Nomination Committee or the Chairman of the Nomination Committee may conduct an interview with the candidate, either in person or by telephonic or video-conferencing or by whatever means the Nomination Committee considers as appropriate.
- (5) The Nomination Committee should resolve as to whether a recommendation should be given to the Board to approve or decline the election of the candidate as a Director of the Company.
- (6) If the Board agrees with the proposed appointment, it should, if it is to fill a casual vacancy consequential from the retirement or resignation of any Director, resolve the appointment of the new Director pursuant to Article 86(3) or, if it is an addition to the existing Board, propose an ordinary resolution for the appointment of the new Director at the Company's next annual general meeting pursuant to Article 86(2).
- (7) The relevant shareholder should be communicated with the decision of the Board accordingly.
- (8) The Chief Executive Officer of the Company is currently Jamie Gibson whose email address is: jamie.gibson@regentpac.com.

The Company Secretary of the Company is currently Stella Fung whose email address is: stella.fung@regentpac.com.

The Company's address and telephone and facsimile numbers are set out on its website.

Review of shareholders' communication policy

In compliance with Code Provision E.1.4 of the CG Code, the Board has determined that an annual review should be conducted on the effectiveness of the above shareholders' communication policy. An annual review was conducted in March 2017, which concluded that the Company had in place a compliant (under the CG Code) and effective means of communication with its shareholders.

Subsequent to the year end date, the Board conducted a review of the above shareholders' communication policy in March 2018, which concluded that the Company had in place a compliant (under the CG Code) and effective means of communication with its shareholders.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

During the year ended 31 December 2017 and prior to the date of this report, there were no changes made to the Company's Memorandum and Articles of Association.

In compliance with Rule 13.90 of the HK Listing Rules, an updated copy of the Company's amended and re-stated Memorandum and Articles of Association is available on the websites of the Company (www.regentpac.com) and the HK Stock Exchange (www.hkexnews.hk).

Right to demand poll

Under Article 66 of the Company's Articles of Association, subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles of Association, at any general meeting on a show of hands every member present in person (or being a corporation, present by a representative duly authorised) or by proxy shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Where a member is, under the HK Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

A resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is required under the HK Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- a. by the chairman of such meeting; or
- b. by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- c. by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- d. by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal not less than one-tenth of the total sum paid up on all shares conferring that right.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS (Continued)

Right to demand poll (Continued)

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

The Directors have noted that the aforesaid Article 66 is not in compliance with Section 591(2) of the new Companies Ordinance (Chapter 622) of Hong Kong, which took effect on 3 March 2014. Section 591(2) provides that a provision of a company's articles is void in so far as it would have the effect of making ineffective a demand for a poll at a general meeting on any question (other than: (i) the election of the chairperson of the meeting; or (ii) the adjournment of the meeting), which is made:

- (a) by at least five members having the right to vote at the meeting;
- (b) by a member or members representing at least 5 per cent of the total voting rights of all the members having the right to vote at the meeting; or
- (c) by the chairperson of the meeting.

Given that the Company is not a Hong Kong incorporated company and that pursuant to Rule 13.39(4) of the HK Listing Rules, the chairman of the Company's general meetings will demand a poll on all resolutions proposed at the meeting, the Directors have not proposed any amendments to Article 66 of the Company's Articles of Association regarding the members' right to demand poll.

Notice periods of general meetings

It is noted that amendments have been made to Appendix 13B to the HK Listing Rules (Additional requirements for the Memorandum and Articles of Association of issuers incorporated or otherwise established in the Cayman Islands) in the "Consultation Conclusions on Review of Listing Rules on Disclosure of Financial Information with reference to the New Companies Ordinance and Hong Kong Financial Reporting Standard and Proposed Minor/Housekeeping Rule Amendments" published by the HK Stock Exchange on 6 February 2015, which took effect on 1 April 2015, to align the notice periods for general meetings required for the Cayman Islands incorporated companies with the relevant requirements under the new Companies Ordinance (Chapter 622) of Hong Kong (which took effect on 3 March 2014), being 21 days for annual general meetings and 14 days for any other general meetings. The existing Article 59 of the Company's Articles of Association complies with these requirements.

In addition, Code Provision E.1.3 of the CG Code requires that the issuer should arrange for the notice to shareholders to be sent for annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining sound and effective risk management and internal control systems (including reviewing their effectiveness) to safeguard Shareholders' investment and the Group's assets, on an ongoing basis. To this end, management continues to allocate resources for an internal control and risk management system to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

The Board, through the Audit Committee, has reviewed the adequacy and effectiveness of the Group's risk management and internal control systems. During the year ended 31 December 2017, the Audit Committee engaged an internal audit and business consulting firm to undertake a review of the effectiveness of the Group's risk management and internal control systems for the year, including financial, operational and compliance functions.

Based on the results of the review, the Group's risk management and internal control systems are considered effective and adequate.

Risk management

Risk management is a standing process of the Group which assists management and the Board in enhancing the transparency and accountability of the major business risks encountered. During the year ended 31 December 2017, the Group conducted formal risk assessment by the management on a semi-annually basis to identify and assess enterprise risks (including environmental, social and governance risks) with reference to the Group's business objectives and strategies. A risk assessment questionnaire prepared, based on the Group's risk model, was circulated to senior management of the Group, together with reviews of existing risk mitigation measures and follow-up interviews as necessary, to facilitate the assessment. Management then developed action plans to further enhance the risk management capabilities of particular key risks as appropriate.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

Internal control

The Group ensures internal controls are designed and implemented in all major aspects of the Group's operations and details of internal control activities are included in the operating policies and procedures of the Group. Management regularly revisits the policies and procedures and furnishes updates as necessary. During the year ended 31 December 2017, the Group also conducted a detailed review of the operations of Plethora Solutions Holdings plc, identified the respective internal control deficiencies and executed corresponding remedial action plans. The Group also developed the policies and procedures for its major functions to ensure key internal controls are included.

Internal audit function

The Group maintains an internal audit function assisting the Board in maintaining an effective risk management and internal control systems by evaluating its effectiveness and efficiency and by promoting continuous improvement. The internal audit function of the Group, which is independent of management, reports directly to the Audit Committee regularly and has access to the Chairlady of the Audit Committee if appropriate during the year.

To enhance the objectivity and competency of the internal audit function, the Group outsourced the internal audit function to an internal audit and business consulting firm.

The internal audit function performs regular reviews of the Group's internal controls based on a risk-based internal audit plan approved by the Audit Committee. The annual audit plan was arrived at using a risk-based approach to determine the priorities of the internal audit activity.

Findings and recommendations on internal control deficiencies were communicated with management and action plans were developed by management to address the issues identified. Post-audit reviews were scheduled to ensure the action plans were executed as designed.

Key findings of each internal control review assignment were reported to and reviewed by the Audit Committee on a timely basis.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING

The financial statements of the Company for the year ended 31 December 2017 have been reviewed by the Audit Committee. The Directors acknowledge their responsibility for preparing the accounts and presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. An explanation of the basis on which the Company generates or preserves value over the longer term (the business model) and the strategy for delivering the Company's objectives are set out under the section headed "Strategic Plan" in the "Management's Discussion and Analysis of the Group's Performance".

A report of the independent Auditor with respect to the Company's financial statements for the year ended 31 December 2017 is included in this annual report.

On Behalf of the Board

James Mellon

Chairman

23 March 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OVERVIEW AND SCOPE

The Group prepares the Environmental, Social and Governance (the “ESG”) Report in accordance with Appendix 27 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group has assessed the materiality of the key ESG issues associated with its business and operations, and accordingly determined the scope and content of disclosure in this ESG Report.

The scope of this ESG Report covers the operations of the head office in Hong Kong and Plethora Solutions Holdings plc (“Plethora”) in the United Kingdom (collectively the “Group”), unless specifically stated otherwise, for the year ended 31 December 2017 (the “reporting period”).

STRATEGY, OBJECTIVES AND MANAGEMENT APPROACH

It is of the Group’s significant priority in promoting sustainable practices in daily business operations with the aim to minimise unfavorable impact on the environment and society in which it operates. The Board is aware of its overall responsibility for the Group’s ESG strategy and reporting and has ensured management has implemented relevant measures during the reporting period. Management regularly evaluates the Group’s ESG-related exposure with the consideration of changes in internal and external business environment, and has ensured that all relevant ESG principles are being adhered to when conducting business. In addition, the Group maintains the ESG policies to govern the respective processes.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL

We are committed to conducting our business in an environmentally responsible manner. In particular, all employees are required to comply with all applicable environmental laws and regulations and to conduct business in a manner that protects the environment, conserves resources and promotes sustainable development.

As of 31 December 2017, the Group's headquarters in Hong Kong occupied 5,479 square feet with 10 employees, while Plethora's office in the United Kingdom occupied 344 square feet with 2 employees. Given our relatively small operational size, our current business operations do not have any significant impact on the environment. We are not involved in producing air, water, land pollutants or hazardous wastes, and have limited emission of greenhouse gas ("GHG"), which is generated indirectly from the electricity consumption and paper usage for daily office administration purpose. Relevant Environmental Key Performance Indicators ("KPIs") in connection to our business are disclosed below:

| KPIs | 2016 | 2017 |
|--------------------------------------------------------------------------|-----------------------|-----------------------|
| AI.1 Air Pollutants Emission | N/A (Note 1) | |
| AI.2 GHG Emission | | |
| Direct emission of GHG | N/A (Note 1) | |
| Indirect emission of Carbon Dioxide ("CO ₂ ") resulting from: | | |
| ➤ Electricity purchased (Note 2) | 39,830 kg | 38,567 kg |
| ➤ Paper waste disposed of at landfills | 963 kg | 553 kg |
| ➤ Business air travel by employees | 53,064 kg | 45,074 kg |
| | 93,857 kg | 84,194 kg |
| CO ₂ emission per employee | 7,220 kg per employee | 7,016 kg per employee |
| CO ₂ emission per square feet of office premises | 16 kg per sq. ft. | 14 kg per sq. ft. |
| AI.3 Hazardous waste produced | N/A (Note 1) | |
| AI.4 Non-hazardous waste produced | | |
| Paper waste disposed of at landfills (Note 3) | 201 kg | 115 kg |
| Paper waste produced per employee | 15 kg per employee | 9.6 kg per employee |
| A2.1 Energy consumption | | |
| Direct energy consumption | N/A (Note 1) | |
| Indirect energy consumption from electricity purchased (Note 2) | 50,418 kWh | 48,819 kWh |
| Energy consumption per employee | 3,878 kWh | 4,068 kWh |
| | per employee | per employee |
| Energy consumption per square feet of office premises | 9 kWh per sq. ft. | 8 kWh per sq. ft. |
| A2.2 Water consumption | N/A (Note 4) | |
| A2.5 Packaging material used for finished products | N/A (Note 5) | |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL (Continued)

Notes:

1. The Group does not have production and is not involved in activities that:
 - Emit air pollutants;
 - Directly generate GHG;
 - Generate hazardous wastes; or
 - Directly consume energy.
2. The figures only include Head Office in Hong Kong. Relevant data in Plethora's office is not available since electricity consumed is covered by the landlord.
3. With consideration of limited paper waste volume, the Group disposes of the waste to landfills through the waste disposal channel managed by the building's management service provider.
4. Water usage for the head office and Plethora's office is minimal and relevant expense is covered by the landlord. Hence, no data is available. The Group has not encountered any issues in water sourcing.
5. The commercialisation partner is responsible for the marketing, distribution and manufacturing of products. The Group is not directly involved in the use/purchase of packaging materials.

The Group has been persistent in conducting business in an environmentally responsible manner by efficient use of resources, including energy, water and other raw materials, and minimisation of the Group's impact on the environment and natural resources. We continuously improve our environmental management practices through enhancing operational efficiencies and implementing eco-friendly measures such as energy conservation, paper saving, reuse and recycling, etc. The efforts we put are reflected in the reduction of electricity consumed and paper wastes produced during the reporting period.

Throughout the reporting period, there was no incidence of non-compliance with the relevant environmental laws and regulations that have a significant impact on the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL

Employment and Labour Practices

Employment

The Group strictly complies with applicable labour standards, health and safety and employment laws and regulations of its respective major operating locations. The Group is committed to providing equal opportunities throughout recruitment and employment and combating all forms of discrimination in the workplace.

The Group has developed internal policies and guidelines on employment, dismissal, working hours and leave entitlement, working conduct, safety, welfare and benefits as well as training and development. Employee handbook is distributed to all employees as a vital communication medium between the company and the employees. There was no appeal or investigation incident about any non-compliance with employment regulations or violation of employees' rights during the reporting period.

Labour Standards

The Group prohibits child and forced labour in any workplace in accordance with the applicable laws and regulations.

Health and Safety

The Group places the highest priority on securing health and safety of all employees. Guidelines on health and safety procedures are developed to maintain a healthy and safe working environment for employees. It has provided health and accidental insurance coverage to eligible employees. During the reporting period, there was no material accident or labour dispute with employees.

Development and Training

Staff training and enhancement guidelines are in place to ensure appropriate support to enhance their knowledge, skills and competencies needed for their work duties. Education allowances and leaves are offered to the employees for attending training courses, conferences and examinations organised by recognised professional institutions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL (Continued)

Operating Practices

Supply Chain Management

The Group engages with its suppliers and business partners on a fair and ethical basis and expects that they adhere to high social, ethical and environmental standards.

Our management takes reasonable efforts to understand and ensure the Group's business partners comply with environmental protection regulations and advocate good manufacturing practices and quality standards. In addition, the Group has established internal policies governing vendor selection and ongoing management.

Product Responsibility

As an investment company focusing on bio-pharmaceutical, the Group's core value is to prioritise and assure quality and safety of the Group's products. The Group has regularly and closely monitored the safety of all its medicine products, including reviewing safety data from clinical studies and reviewing reports on probable adverse drug reactions. The Group has taken active steps in ensuring strict compliance with regulations and should there be any misconduct, investigation will be conducted and results will be reported to management. During the reporting period, there was no product recall, quality issue or adverse event reported.

The Group has entered into agreements with business partners to set out indemnity clauses for product liability and to ensure that operational and quality assurance activities as well as regulatory compliance objectives are implemented and coordinated.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL (Continued)

Operating Practices (Continued)

Anti-Corruption

Honesty, integrity and fairness are our core values which have been communicated to all directors and employees through staff handbook and internal policies. The Group is committed to conducting all businesses in the absence of any undue influence, and prohibits any form of corruption or malpractice such as bribery, money laundering, extortion and fraud.

Community

The Group is committed to fulfilling its obligations and duties as a responsible corporate citizen, ensuring that its behavior reflects a genuine concern for its stakeholders, including shareholders, employees, their families and the communities in which we live and work. The Group's community investment strategy focuses on healthcare in the community and science education by making donations or sponsorship. We also encourage and support employees' volunteering for the benefit of the community.

On Behalf of the Board

James Mellon

Chairman

23 March 2018

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF REGENT PACIFIC GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Regent Pacific Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 109 to 204, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the HKICPA’s “Code of Ethics for Professional Accountants” (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

BDO Limited
香港立信德豪會計師事務所有限公司

BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment assessment of intangible asset (patent PSD502®) of Plethora Solutions Holdings Plc (“Plethora”)

Refer to notes 3.12, 4.1 and 13 to the consolidated financial statements.

At 31 December 2017, the net carrying amount of PSD502® (also known as Fortacin™) was US\$165 million as set out in note 13.

Management has carried out impairment assessment in accordance with the Group's accounting policies and concluded that there was no impairment in respect of the cash generating unit to which this intangible asset was allocated. This conclusion was based on a value in use calculation that required significant management judgment with respect to the discount rates, exchange rates, growth rates, royalty rates and launch dates in each of five major regions identified in management's valuation model as well as the premature ejaculation prevalence rate.

We consider this as a key audit matter because the estimation of the recoverable amount of the cash generating unit to which intangible asset allocated involves significant judgments and assumptions.

Our procedures in relation to management's impairment assessment of PSD502®/Fortacin™ at 31 December 2017 included:

- assessing the valuation methodology used and ensuring this was consistent with the methodology used when the intangible asset was initially valued on acquisition;
- challenging the reasonableness of key assumptions adopted by management including discount rates, launch dates in key markets, exchange rates, expected life of the patent and growth rates based on our knowledge of the business and industry;
- reconciling input data to supporting evidence, such as management's budgets and considering the reasonableness of these budgets; and
- considering the sensitivity of the valuation model to changes in key assumptions.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited

Certified Public Accountants

Chiu Wing Cheung Ringo

Practising Certificate no. P04434

Hong Kong, 23 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | Notes | 2017 US\$'000 | 2016 US\$'000 |
|----------------------------------------------------------------------|---------|------------------|------------------|
| Revenue: | 5 | | |
| Milestone income | | 5,272 | — |
| Corporate investment income | | (40) | 137 |
| Other income | | 5 | 175 |
| | | 5,237 | 312 |
| Fair value gain on financial instruments, net | 6 | 4,256 | 3,124 |
| Total income including fair value gain on financial instruments, net | | 9,493 | 3,436 |
| Expenses: | | | |
| Employee benefit expenses | 7 | (3,900) | (3,906) |
| Rental and office expenses | | (706) | (720) |
| Information and technology expenses | | (177) | (266) |
| Marketing costs and commissions | | (143) | (130) |
| Professional and consulting fees | | (1,011) | (2,754) |
| Research and development expenses | | (2,455) | (3,241) |
| Amortisation of intangible asset | 13 | (28,047) | (22,887) |
| Other operating expenses | | (457) | (1,434) |
| Operating loss before impairment loss | | (27,403) | (31,902) |
| Impairment loss on interest in an associate | 14(v) | (1,875) | (97) |
| Reversal of impairment on loan receivables | 6 | — | 364 |
| Operating loss | 6 | (29,278) | (31,635) |
| Loss on deemed disposal of associates | 14(iii) | — | (5,805) |
| Gain from bargain purchase of a subsidiary | 32 | — | 31,686 |
| Gain from bargain purchase of an associate | 14(iv) | — | 1,356 |
| Share of results of associates | 14(ii) | (1,067) | (831) |
| Loss before income tax | | (30,345) | (5,229) |
| Tax credit | 8 | 2,982 | 2,765 |
| Loss for the year | | (27,363) | (2,464) |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | Notes | 2017 US\$'000 | 2016 US\$'000 |
|---------------------------------------------------------------------------------------|---------|------------------|------------------|
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange (loss)/gain on translation of financial statements of foreign operations | | (25) | 390 |
| Share of other comprehensive income of associates | | (111) | (605) |
| Reclassification to profit or loss on disposal of an associate | 14(iii) | — | 3,127 |
| Reclassification to profit or loss on disposal of available-for-sale financial assets | | — | (1,232) |
| Other comprehensive income for the year, before and net of tax | | (136) | 1,680 |
| Total comprehensive income for the year | | (27,499) | (784) |
| Loss for the year attributable to: | | | |
| Shareholders of the Company | | (27,359) | (2,460) |
| Non-controlling interests | | (4) | (4) |
| | | (27,363) | (2,464) |
| Total comprehensive income attributable to: | | | |
| Shareholders of the Company | | (27,495) | (780) |
| Non-controlling interests | | (4) | (4) |
| | | (27,499) | (784) |
| Losses per share attributable to shareholders | | | |
| of the Company during the year | 10 | US cent | US cent |
| – Basic and Diluted | | (1.51) | (0.17) |
| | | HK cent | HK cent |
| – Basic and Diluted | | (11.80) | (1.32) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

| | Notes | 2017 US\$'000 | 2016 US\$'000 |
|----------------------------------------------------------------|-------|------------------|------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 63 | 84 |
| Intangible asset | 13 | 165,131 | 193,178 |
| Interests in associates | 14 | 2 | 3,055 |
| Available-for-sale financial assets | 15 | 1,925 | 1,726 |
| | | 167,121 | 198,043 |
| Current assets | | | |
| Financial assets at fair value through profit or loss | 16 | 8,778 | 7,386 |
| Prepayments, deposits and other receivables | 18 | 681 | 614 |
| Cash and bank balances | 17 | 2,251 | 291 |
| Derivative financial instruments | 22 | — | 186 |
| | | 11,710 | 8,477 |
| Current liabilities | | | |
| Trade payables, deposits received, accruals and other payables | 19 | (3,543) | (5,874) |
| Net current assets | | 8,167 | 2,603 |
| Total assets less current liabilities | | 175,288 | 200,646 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 23 | (16,513) | (19,318) |
| NET ASSETS | | 158,775 | 181,328 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

| | Notes | 2017 US\$'000 | 2016 US\$'000 |
|-------------------------------------------------------------------------|-------|------------------|------------------|
| EQUITY | | | |
| Capital and reserves attributable to shareholders of the Company | | | |
| Share capital | 20 | 18,372 | 17,372 |
| Reserves | 21 | 140,450 | 163,999 |
| <hr/> | | | |
| Equity attributable to shareholders of the Company | | 158,822 | 181,371 |
| Non-controlling interests | | (47) | (43) |
| <hr/> | | | |
| TOTAL EQUITY | | 158,775 | 181,328 |

The consolidated financial statements on pages 109 to 204 were approved and authorised for issue by the Board of Directors on 23 March 2018.

James Mellon
Chairman

Jamie Gibson
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| Equity attributable to shareholders of the Company | | | | | | | | | | | |
|---------------------------------------------------------------------------------------------|---------------|---------------------|----------------|------------------------------|-----------------------------|--------------------|------------------------------------|----------|---------------------------|--------------|--|
| | Share capital | Accumulated losses* | Share premium* | Share-based payment reserve* | Capital redemption reserve* | Statutory reserve* | Foreign currency exchange reserve* | Total | Non-controlling interests | Total equity | |
| 2017 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | |
| At 1 January 2017 | 17,372 | (129,541) | 279,588 | 1,622 | 8,228 | 176 | 3,926 | 181,371 | (43) | 181,328 | |
| Share issued by way of a placing and top-up subscription, net of issuing expenses (note 20) | 1,000 | — | 3,946 | — | — | — | — | 4,946 | — | 4,946 | |
| Share options forfeited | — | 1,622 | — | (1,622) | — | — | — | — | — | — | |
| | 1,000 | 1,622 | 3,946 | (1,622) | — | — | — | 4,946 | — | 4,946 | |
| Loss for the year | — | (27,359) | — | — | — | — | — | (27,359) | (4) | (27,363) | |
| Other comprehensive income | | | | | | | | | | | |
| Foreign currency translation adjustment | — | — | — | — | — | — | (25) | (25) | — | (25) | |
| Share of translation reserve of associates (note 14(ii)) | — | — | — | — | — | — | (111) | (111) | — | (111) | |
| Total comprehensive income for the year | — | (27,359) | — | — | — | — | (136) | (27,495) | (4) | (27,499) | |
| At 31 December 2017 | 18,372 | (155,278) | 283,534 | — | 8,228 | 176 | 3,790 | 158,822 | (47) | 158,775 | |

*As at 31 December 2017, the total of these reserves amount to a surplus of US\$140,450,000 (31 December 2016: US\$163,999,000).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| 2016 | Equity attributable to shareholders of the Company | | | | | | | | | | |
|---------------------------------------------------------------------------------------------------------|----------------------------------------------------|---------------------------------|----------------------------|------------------------------------------|-----------------------------------------|--------------------------------------------|--------------------------------|------------------------------------------------|-------------------|---------------------------------------|--------------------------|
| | Share capital US\$'000 | Accumulated losses* US\$'000 | Share premium* US\$'000 | Share-based payment reserve* US\$'000 | Capital redemption reserve* US\$'000 | Investment revaluation reserve US\$'000 | Statutory reserve* US\$'000 | Foreign currency exchange reserve* US\$'000 | Total US\$'000 | Non-controlling interests US\$'000 | Total equity US\$'000 |
| At 1 January 2016 | 34,857 | (284,032) | 275,389 | 2,220 | 8,228 | 1,232 | 176 | 1,014 | 39,084 | (39) | 39,045 |
| Consideration shares issued (notes 20 and 32) | 138,868 | — | 4,199 | — | — | — | — | — | 143,067 | — | 143,067 |
| Capital reduction (note 20) | (156,353) | 156,353 | — | — | — | — | — | — | — | — | — |
| Share options forfeited | — | 598 | — | (598) | — | — | — | — | — | — | — |
| | (17,485) | 156,951 | 4,199 | (598) | — | — | — | — | 143,067 | — | 143,067 |
| Loss for the year | — | (2,460) | — | — | — | — | — | — | (2,460) | (4) | (2,464) |
| Other comprehensive income | | | | | | | | | | | |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | 390 | 390 | — | 390 |
| Deferral of Day One Gain on derivative financial instruments - Diabetic Boot | — | — | — | — | — | 526 | — | — | 526 | — | 526 |
| Reclassification to profit or loss on derecognition of derivative financial instruments - Diabetic Boot | — | — | — | — | — | (526) | — | — | (526) | — | (526) |
| Share of translation reserve of associates (note 14(ii)) | — | — | — | — | — | — | — | (605) | (605) | — | (605) |
| Reclassification to profit or loss on disposal of available-for-sale financial assets | — | — | — | — | — | (1,232) | — | — | (1,232) | — | (1,232) |
| Reclassification to profit or loss on disposal of an associate (note 14(iii)) | — | — | — | — | — | — | — | 3,127 | 3,127 | — | 3,127 |
| Total comprehensive income for the year | — | (2,460) | — | — | — | (1,232) | — | 2,912 | (780) | (4) | (784) |
| At 31 December 2016 | 17,372 | (129,541) | 279,588 | 1,622 | 8,228 | — | 176 | 3,926 | 181,371 | (43) | 181,328 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | Notes | 2017 US\$'000 | 2016 US\$'000 |
|----------------------------------------------------------------------------------------------------------------------|---------|------------------|------------------|
| Cash flows from operating activities: | | | |
| Loss before income tax | | (30,345) | (5,229) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 12 | 36 | 70 |
| Amortisation of intangible asset | 13 | 28,047 | 22,887 |
| Gain from bargain purchase of a subsidiary | 32 | — | (31,686) |
| Gain from bargain purchase of an associate | 14(iv) | — | (1,356) |
| Dividend income | 5 | — | (11) |
| Interest income on bank deposits | 5 | — | (5) |
| Other interest income | 5, 6 | — | (30) |
| Reversal of impairment on loan receivables | 6 | — | (364) |
| Share of results of associates | 14(ii) | 1,067 | 831 |
| Impairment loss on interest in an associate | 14(v) | 1,875 | 97 |
| Unrealised loss on derivative financial instruments | 6 | 186 | 143 |
| Unrealised gain on financial assets at fair value through profit or loss | 6, 16 | (4,484) | (2,874) |
| Realised gain on disposal of available-for-sale financial assets | | — | (677) |
| Loss on deemed disposal of associates | 14(iii) | — | 5,805 |
| Derecognition of long outstanding trade and other payables | 5 | — | (149) |
| | | (3,618) | (12,548) |
| Change in working capital | | | |
| Decrease in loan receivables, prepayments, deposits and other receivables | | 110 | 895 |
| Decrease in financial assets at fair value through profit or loss | | 3,092 | 3,634 |
| Decrease in trade payables, deposits received, accruals and other payables | | (2,331) | (876) |
| Cash used in operations | | (2,747) | (8,895) |
| Interest received on bank deposits | | — | 5 |
| Other interest income received | | — | 89 |
| Dividend received from available-for-sale financial assets and financial assets at fair value through profit or loss | | — | 11 |
| Tax refund | | — | 483 |
| Net cash used in operating activities | | (2,747) | (8,307) |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | Notes | 2017 US\$'000 | 2016 US\$'000 |
|---------------------------------------------------------------------------------------|-------|------------------|------------------|
| Cash flows from investing activities: | | | |
| Purchase of property, plant and equipment | 12 | (9) | (32) |
| Purchase of available-for-sale financial assets | 15 | (199) | (819) |
| Purchase of derivative financial instruments | | — | (627) |
| Proceeds from disposal of available-for-sale financial assets | | — | 1,244 |
| Proceeds from disposal of Binary Limited (as an associate) | | — | 1,000 |
| Decrease in margin deposit placed with broker firms | | — | 679 |
| Recovery of loan receivables on which impairment previously made | | — | 439 |
| Acquisition of a subsidiary, net of cash acquired | 32 | — | 564 |
| Net cash (used in)/generated from investing activities | | (208) | 2,448 |
| Cash flow from financial activities: | | | |
| Shares issued by way of a placing and top-up subscription, net of issuing expenses | 20 | 4,946 | — |
| Net cash generated from financial activities | | 4,946 | — |
| Net increase/(decrease) in cash and cash equivalents | | 1,991 | (5,859) |
| Cash and cash equivalents at the beginning of the year | | 291 | 5,474 |
| Effects of foreign currency fluctuations | | (31) | 676 |
| Cash and cash equivalents at the end of the year | | 2,251 | 291 |
| Represented by: | | | |
| Cash and bank balances | 17 | 2,251 | 291 |

NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. Its registered office is at P. O. Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "HK Stock Exchange") and are also traded on the Open Market (Freiverkehr) of the Frankfurt Stock Exchange.

The consolidated financial statements are presented in United States Dollars ("US\$"), which is also the functional currency of the Company. All values are rounded to the nearest thousand ("US\$'000") except when otherwise indicated.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by The Rules Governing the Listing of Securities on the HK Stock Exchange (the "HK Listing Rules").

The Company is engaged in investment holding, and the principal activities of the Company and its subsidiaries (collectively defined as the "Group") consist of investments in biopharma companies and other corporate investments. The principal place of business of the Group is 8th Floor, Henley Building, 5 Queen's Road Central, Hong Kong.

The consolidated financial statements for the year ended 31 December 2017 were approved and authorised for issue by the Board of Directors on 23 March 2018.

2. ADOPTION OF NEW OR REVISED HKFRSs

2.1 Adoption of new or revised HKFRSs – effective on 1 January 2017

| | |
|--------------------------------------------------|-------------------------------------------------------------------|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Annual Improvements to HKFRSs 2014-2016 Cycle | Amendments to HKFRS 12, Disclosure of Interests in Other Entities |

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.1 Adoption of new or revised HKFRSs – effective on 1 January 2017 (Continued)

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments had no impact on these financial statements as the Group did not have any changes in liabilities arising from financing activities for the year ended 31 December 2017.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

The adoption of the amendments had no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group had previously recognised deferred tax assets.

Annual Improvements to HKFRSs 2014-2016 Cycle - Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 had no impact on these financial statements as the latter treatment was consistent with the manner in which the Group had previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.2 New or revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

| | |
|------------------------------------|----------------------------------------------------------------------------------------------------|
| HKFRSs (Amendments) | Annual Improvements 2014-2016 Cycle ¹ |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions ¹ |
| HKFRS 9 | Financial Instruments ¹ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |
| HKFRS 15 | Revenue from Contracts with Customers ¹ |
| Amendments to HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15) ¹ |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation ² |
| HKFRS 16 | Leases ² |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration ¹ |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments ² |

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

Amendments to HKFRS 2 – Classification and Measurement of Share-based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.2 New or revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 9 - Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured as financial assets at fair value through profit and loss ("FAFVPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FAFVPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group anticipates that the application of the expected credit loss model will result in earlier recognition of credit losses in relation to the Group's financial assets measured at amortised costs. The Group is unable to estimate the impact until a more detailed assessment is completed.

Amendments to HKFRS 10 and HKAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business, the gain or loss is recognised in full. Conversely, when the transaction involves assets that do not constitute a business, the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The initial adoption of the amendments to HKFRS 10 and HKAS 28 would not have any significant impact on the Group's financial performance and financial position.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.2 New or revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 15 - Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

In 2016, the HKICPA issued Amendments to HKFRS 15, Revenue from Contracts with Customers (Clarifications to HKFRS 15), in relation to the clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The Directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures. However, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.2 New or revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Total operating lease commitments of the Group in respect of leased premises as at 31 December 2017 amounted to US\$1,731,000. Upon the adoption of HKFRS 16, the Directors of the Company anticipate that the commitments in the future in respect of leased premises with terms more than 12 months will be required to recognise as the right-of-use assets and lease liabilities in the consolidated financial statements of the Group in future. Accordingly, the Directors of the Company consider the adoption of HKFRS 16, as compared with the current accounting policy, would not result in significant impact on the Group's financial performance and financial position.

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

2.2 New or revised HKFRSs that have been issued but are not yet effective (Continued)

HK(IFRIC) – Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretation specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The initial adoption of the Interpretation would not have any significant impact on the Group's financial performance and financial position.

HK(IFRIC) – Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

The initial adoption of the Interpretation would not have any significant impact on the Group's financial performance and financial position.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for:

- financial instruments classified as available-for-sale (“AFS”) and at fair value through profit or loss; and
- derivative financial instruments

which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management’s best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisitions of subsidiaries or businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that the deferred tax assets or liabilities are recognised and measured in accordance with HKAS 12 “Income Taxes”.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Business combination and basis of consolidation (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in the non-controlling interest having a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure or rights to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, interests in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

3.4 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses. The Group's investment in associates includes goodwill identified on acquisition.

Goodwill is calculated at each stage of the acquisition based on the consideration paid and share of fair value of net assets acquired at the date of each acquisition. If the sum of this consideration is lower than the fair value of the net assets acquired, the difference is recognised in profit or loss as a gain from bargain purchase.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Associates (Continued)

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to “share of results of associates” in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group’s financial statements only to the extent of unrelated investor’s interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

3.5 Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “**functional currency**”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Foreign currency (Continued)

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign currency exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign currency exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign currency exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign currency exchange reserve.

3.6 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are recognised as an expense in profit or loss during the financial period in which they are incurred.

Depreciation on assets is provided to write off their cost less the expected residual value over their estimated useful lives, using the straight-line method. The estimated useful lives used for this purpose are as follows:

| | |
|------------------------------|-----------|
| Furniture and fixtures | 5 years |
| Computer and other equipment | 3-5 years |

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property, plant and equipment (Continued)

The assets' expected residual values, depreciation methods and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss arising on retirement or disposal is determined as the difference between the net sale proceeds and the carrying amount of the asset and is recognised in profit or loss on disposal.

3.7 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceeds the aggregate of the fair value of consideration paid, the amount of any non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see note 3.12(ii)), and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

3.9 Financial instruments

(i) *Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit and loss

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(i) Financial assets (Continued)

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as AFS or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of the reporting period, whether there is any objective evidence that a financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payment;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- a significant or prolonged decline in the fair value of an AFS investment in an equity financial asset below its cost.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss. Objective evidence would include a significant or prolonged decline in fair value of an investment below its cost.

Any impairment losses on AFS debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For AFS equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For AFS equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade payables, deposits received, accruals and other payables are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Impairment of other assets

At the end of the reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- interests in subsidiaries and associates

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit (see note 3.7), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

3.11 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Intangible assets (other than goodwill)

(i) *Acquired intangible assets*

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation of intangible assets with finite useful lives is provided on the straight-line method over their estimated useful lives as follows:

| | |
|----------------------------------------|---------|
| Patent (Fortacin™) | 8 years |
| Economic rights (Out-licensing rights) | 9 years |

(ii) *Impairment*

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see note 3.10).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount; however, the carrying amount should not be increased above the lower of its recoverable amount and the carrying amount that would have resulted had no impairment loss been recognised for the asset in prior years. All reversals are recognised in profit or loss immediately.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

3.14 Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Employee benefits (Continued)

(ii) Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under Mandatory Provident Fund Schemes Ordinance for all of its employees who are eligible to participate in the Mandatory Provident Fund Scheme. Contributions are made based on a percentage of the employees' basic salaries.

In the United Kingdom, pensions to certain employees are provided through contributions to individual personal pension plans. A defined contribution plan is a pension plan under which the subsidiaries operating in the United Kingdom pays fixed contributions into an independent entity. The subsidiaries operating in the United Kingdom have no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

(iii) Share-based employee compensation

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the (i) share options awarded and (ii) ordinary shares expected to vest respectively. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the employee share-based payment reserve in equity if the grant is equity-settled share-based payment transaction. In respect of cash-settled share-based payment transaction, the corresponding increase is recognised as a liability. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of i) share options and ii) ordinary shares expected to vest respectively. Non-market vesting conditions are included in assumptions about the number of i) options ii) ordinary shares that are expected to vest. Estimates are subsequently revised if there is any indication that the number of i) share options and ii) ordinary shares expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in employee share-based payment reserve will be transferred to share premium. After vesting date, if the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in employee share-based payment reserve will be transferred to retained profits/accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Non employee share-based payments

Non employee share-based payments are accounted for in the same way as employee share-based payment except that the cost of equity-settled transactions with parties other than employees is measured by reference to the fair value of the goods or services provided.

3.16 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.17 Revenue recognition

The recognition of income received, such as licence fees, up-front receipts and milestone receipts is dependent on the terms of the related arrangement, having regard to the ongoing risks and rewards of the arrangement, and the existence of any performance or repayment obligations with any third party. Licence fees are recognised as revenue when all substantial obligations to the licensee have been fulfilled. Income is only recognised as revenue when the following conditions have been met:

- the stage of completion of the transaction at the end of the reporting period can be measured reliably;
- the amount of the revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Consultancy fee income is recognised when the services are provided.

Interest income is accrued on a time-proportion basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Research and development expenses

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

4.1 Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the related CGU to which the intangible assets have been allocated. Value in use calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGUs containing the intangible assets using suitable discount rates. Where the expected future cash flows arising from the relevant CGUs differ from the original estimation, an impairment loss may arise.

4.2 Impairment of interests in associates

The Group assesses whether there are any indicators of impairment for its associates at the end of the reporting period. An impairment exists when the carrying value of the associates exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the associates and choose a suitable discount rate in order to calculate the present value of those cash flows.

4.3 Potential capital gain tax on realised gain on disposal of the Company's investment in BCI Iron Limited ("BCI")

As further explained in note 31 to the consolidated financial statements and further detailed under the section headed "Australian Tax on BCI Sale" in the CEO's Report, the Company has not made any provision for Australian Capital Gains Tax ("CGT") in connection with its gain on disposal of shares in BCI in January 2013. The Australian Taxation Office considers that the Company does have a CGT liability arising from this gain in the amount of approximately A\$11.85 million (or approximately US\$8.54 million at the then exchange rate between A\$ and US\$) (amended down by way of an amended assessment on 7 September 2016 so as to include some additional costs associated with the Group's investment in BCI). The Directors have made this judgment after careful consideration of the advice provided by its independent professional legal and tax advisers. The Company and its advisers are also closely monitoring any developments in Australian taxation law that may be relevant to its analysis and position and should any change or development take place the Company will, following advice, revisit its treatment of the potential Australian tax should the need arise. In this respect, should any change to Australian law or the interpretation thereof render the approach adopted by the Company and its advisers in relation to this matter as being no longer correct or consistent with the relevant change or development, whether in whole or part, the calculations supporting the Company's position (with respect to the value ascribed to BCI's real property (including mining tenements) and non-real property assets at the relevant time) may change and potentially have a material and adverse effect on the Company's accounts going forward.

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

4.4 Provision for income taxes

The Group is subject to income tax in different jurisdictions and significant judgment is required in determining the tax liabilities to be recognised. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. The Group believes that its provision for tax is adequate for the reporting periods based on its assessment of many factors including past experience and interpretations of tax law. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

4.5 Fair value of financial instruments

The Directors use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. For investments in unlisted equity securities issued by private entities where the range of reasonable fair value estimates is so wide that the Directors of the Company are of the opinion that their fair values cannot be measured reliably, they are measured at cost less impairment at the reporting date. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares may include some assumptions not supported by observable market prices and rates.

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

4.6 Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

Level 1: Quoted prices in active markets for identical items (unadjusted);

Level 2: Observable direct or indirect inputs other than Level 1 inputs; and

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures its financial instruments at fair value.

For more detailed information in relation to the fair value measurement of the items above, please refer to notes 16, 22 and 28.

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION

Revenue of the Group consists of milestone income, corporate investment income and other income. An analysis of the Group's revenue for the year is as follows:

| | 2017 US\$'000 | 2016 US\$'000 |
|----------------------------------------------------------------------|------------------|------------------|
| Milestone income | 5,272 | — |
| Corporate investment income | | |
| Dividend income from listed and unlisted equity investments | — | 11 |
| Bank interest income | — | 5 |
| Other interest income | — | 30 |
| Foreign exchange (losses)/gains, net | (40) | 91 |
| | (40) | 137 |
| Other income | | |
| Consultancy fee income | — | 18 |
| Derecognition of long outstanding trade and other payables (note 19) | — | 149 |
| Sundry income | 5 | 8 |
| | 5 | 175 |
| | 5,237 | 312 |

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Chief Executive Officer (“CEO”) for his decision about resources allocation to the Group's business components and for his review of the performance of those components. The business components in the internal financial information reported to the CEO are determined following the Group's major product and service lines.

For management purpose, the Group's two product and service lines are identified as operating segments as follows:

Biopharma : Research, development, manufacturing, marketing and sale of pharmaceutical products
 Corporate Investment : Investment in corporate entities, both listed and unlisted

These operating segments are monitored and strategic decisions are made on the basis of segment operating results. There are no sales between the reportable segments.

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION (Continued)

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

- impairment loss on interest in an associate;
- tax credit;
- reversal of impairment on loan receivables;
- corporate income and expenses which are not directly attributable to the business activities of any operating segment; and
- share of results of associates accounted for using the equity method, gain from bargain purchase of a subsidiary and an associate, and loss on deemed disposal of an associate

are not included in arriving at the operating results of the operating segment.

Segment assets include all assets except for interests in associates and AFS financial assets.

Segment liabilities exclude deferred tax liabilities and corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

For the year ended 31 December 2017

| | Biopharma US\$'000 | Corporate Investment US\$'000 | Total US\$'000 |
|---------------------------------------------|-----------------------|-------------------------------------|-------------------|
| Revenue from external customers | 5,272 | (35) | 5,237 |
| Segment results | (25,657) | (1,746) | (27,403) |
| Impairment loss on interest in an associate | | | (1,875) |
| Share of results of associates | | | (1,067) |
| Consolidated loss before tax credit | | | (30,345) |

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION (Continued)

As at 31 December 2017

| | Biopharma US\$'000 | Corporate Investment US\$'000 | Total US\$'000 |
|--------------------------|-----------------------|-------------------------------------|-------------------|
| Segment assets | 165,514 | 11,390 | 176,904 |
| Interests in associates | | | 2 |
| AFS financial assets | | | 1,925 |
| Total assets | | | 178,831 |
| Segment liabilities | (375) | (3,168) | (3,543) |
| Deferred tax liabilities | | | (16,513) |
| Total liabilities | | | (20,056) |

For the year ended 31 December 2017

| | Biopharma US\$'000 | Corporate Investment US\$'000 | Total US\$'000 |
|------------------------------------------------|-----------------------|-------------------------------------|-------------------|
| Net losses on derivative financial instruments | — | (186) | (186) |
| Depreciation | (22) | (14) | (36) |
| Amortisation | (28,047) | — | (28,047) |
| Net gains on FAFVPL | — | 4,442 | 4,442 |
| Capital expenditure | (7) | (2) | (9) |

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION (Continued)

For the year ended 31 December 2016

| | Biopharma US\$'000 | Corporate Investment US\$'000 | Total US\$'000 |
|---------------------------------------------|-----------------------|-------------------------------------|-------------------|
| Revenue from external customers | — | 312 | 312 |
| Segment results | (26,737) | (5,165) | (31,902) |
| Reversal of impairment on loan receivables | | | 364 |
| Loss on deemed disposal of an associate | | | (5,805) |
| Impairment loss on interest in an associate | | | (97) |
| Gain from bargain purchase of a subsidiary | | | 31,686 |
| Gain from bargain purchase of an associate | | | 1,356 |
| Share of results of associates | | | (831) |
| Consolidated loss before tax credit | | | (5,229) |

As at 31 December 2016

| | Biopharma US\$'000 | Corporate Investment US\$'000 | Total US\$'000 |
|--------------------------|-----------------------|-------------------------------------|-------------------|
| Segment assets | 193,593 | 8,146 | 201,739 |
| Interests in associates | | | 3,055 |
| AFS financial assets | | | 1,726 |
| Total assets | | | 206,520 |
| Segment liabilities | 1,970 | 3,904 | 5,874 |
| Deferred tax liabilities | | | 19,318 |
| Total liabilities | | | 25,192 |

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION (Continued)

For the year ended 31 December 2016

| | Biopharma US\$'000 | Corporate Investment US\$'000 | Total US\$'000 |
|------------------------------------------------|-----------------------|-------------------------------------|-------------------|
| Interest income on bank deposits | 5 | — | 5 |
| Reversal of impairment on loan receivables | — | 364 | 364 |
| Net losses on derivative financial instruments | — | (602) | (602) |
| Depreciation | (21) | (49) | (70) |
| Amortisation | (22,887) | — | (22,887) |
| Net gains on FAFVPL | — | 3,049 | 3,049 |
| Capital expenditure | (2) | (30) | (32) |

The Group's revenues from external customers and its non-current assets (other than financial instruments) are divided into the following geographical areas:

| | Revenue from external customers | | Non-current assets | |
|----------------------|---------------------------------|------------------|--------------------|------------------|
| | 2017 US\$'000 | 2016 US\$'000 | 2017 US\$'000 | 2016 US\$'000 |
| China | — | — | 1 | 1 |
| Hong Kong (domicile) | 79 | 1 | 17 | 29 |
| United Kingdom | 5,158 | 311 | 165,178 | 196,287 |
| | 5,237 | 312 | 165,196 | 196,317 |

The geographical location of customers is based on the location of exchange on which the Group's investments are traded. The geographical location of the non-current assets is based on the physical location of the assets.

NOTES TO THE FINANCIAL STATEMENTS

6. OPERATING LOSS

| | 2017 US\$'000 | 2016 US\$'000 |
|----------------------------------------------------------------------|------------------|------------------|
| Operating loss is arrived at after charging: | | |
| Auditors' remuneration | | |
| - audit services | 213 | 208 |
| - review services | 68 | 56 |
| - other services | — | 114 |
| Depreciation of property, plant and equipment (note 12) | 36 | 70 |
| Amortisation of intangible asset (note 13) | 28,047 | 22,887 |
| Operating lease charges on property and equipment | 666 | 633 |
| Impairment loss on interest in an associate (note 14(v)) | 1,875 | 97 |
| Realised loss on disposal of FAFVPL ^{@ (1)} | 42 | — |
| Realised loss on derivative financial instruments ^{@ (2)} | — | 459 |
| Unrealised loss on derivative financial instruments ^{@ (2)} | 186 | 143 |
| Foreign exchange losses, net* | 40 | 431 |
| and crediting: | | |
| Interest income on bank deposits and loan receivables* | — | 5 |
| Other interest income* | — | 30 |
| Realised gain on disposal of FAFVPL ^{@ (1)} | — | 175 |
| Realised gain on disposal of AFS financial assets [@] | — | 677 |
| Unrealised gain on FAFVPL ^{@ (1)} | 4,484 | 2,874 |
| Dividend income from listed securities* | — | 11 |
| Reversal of impairment on loan receivables [#] | — | 364 |

[@] These amounts constitute the fair value gain on financial instruments of US\$4,256,000 (2016: US\$3,124,000) in the consolidated statement of comprehensive income.

⁽¹⁾ During the year ended 31 December 2017, net gains on financial assets at fair value through profit or loss amounted to US\$4,442,000 (2016: US\$3,049,000), of which a net unrealised gain of US\$4,484,000 (2016: US\$2,874,000) was recorded.

⁽²⁾ During the year ended 31 December 2017, net losses on derivative financial instruments amounted to US\$186,000 (2016: US\$602,000), of which a net unrealised loss of US\$186,000 (2016: US\$143,000) was incurred.

* Included in revenue.

[#] During the year ended 31 December 2016, an impairment on loan receivables of US\$364,000 from Blue Pacific Coal Pte. Ltd. was reversed as an aggregate amount of US\$364,000 was received during the year.

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS)

| | 2017 US\$'000 | 2016 US\$'000 |
|-------------------------------------------------------------|------------------|------------------|
| Salaries, discretionary bonuses and benefits in kind (note) | 3,858 | 3,788 |
| Pension costs - defined contribution plans (note 24) | 42 | 118 |
| | 3,900 | 3,906 |

Note: No bonuses were paid in the financial years ended 31 December 2017 and 2016

a) Directors' and Chief Executive's emoluments

The remuneration of every Director and Chief Executive for the year ended 31 December 2017 is set out below:

| Name of director | Fees US\$'000 | Salaries and benefits in kind US\$'000 | Discretionary bonus US\$'000 | Contribution to defined contribution plans US\$'000 | Total US\$'000 |
|--------------------------------------------|------------------|-------------------------------------------------|------------------------------------|-----------------------------------------------------------------|-------------------|
| Executive Director | | | | | |
| Jamie Gibson | — | 1,500 | — | — | 1,500 |
| Non-Executive Directors | | | | | |
| James Mellon | 25 | 158 | — | — | 183 |
| Jayne Sutcliffe | 20 | — | — | — | 20 |
| Independent Non-Executive Directors | | | | | |
| David Comba | 40 | — | — | — | 40 |
| Julie Oates | 40 | — | — | — | 40 |
| Mark Searle | 40 | — | — | — | 40 |
| Total | 165 | 1,658 | — | — | 1,823 |

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS) (Continued)

a) Directors' and Chief Executive's emoluments (Continued)

The remuneration of every Director and Chief Executive for the year ended 31 December 2016 is set out below:

| Name of director | Fees US\$'000 | Salaries and benefits in kind US\$'000 | Discretionary bonus US\$'000 | Contribution to defined plans US\$'000 | Total US\$'000 |
|---------------------------------------------------|------------------|-------------------------------------------------|------------------------------------|-------------------------------------------------|-------------------|
| Executive Director | | | | | |
| Jamie Gibson* | — | 1,500 | — | — | 1,500 |
| Non-Executive Directors | | | | | |
| James Mellon | 25 | 158 | — | — | 183 |
| Stephen Dattels (resigned on 1 September 2016) | 33 | — | — | — | 33 |
| Jayne Sutcliffe | 20 | — | — | — | 20 |
| Independent Non-Executive Directors | | | | | |
| David Comba | 40 | — | — | — | 40 |
| Julie Oates | 40 | — | — | — | 40 |
| Mark Searle | 40 | — | — | — | 40 |
| Total | 198 | 1,658 | — | — | 1,856 |

* During the period from 1 January to 9 March 2016, remuneration of GBP 460,000 (equivalent to US\$624,000) (including cash of GBP 38,000 (equivalent to US\$52,000) and share-based payment of GBP 422,000 (equivalent to US\$572,000)) was received from Plethora Solutions Holdings plc ("Plethora") (as an associate) by Mr. Jamie Gibson. On 9 March 2016, the Company acquired the remaining issued share capital in Plethora which became a wholly-owned subsidiary of the Group and no remuneration was received from Plethora by Mr. Jamie Gibson.

No Directors waived or agreed to waive any emoluments in respect of the years ended 31 December 2017 and 2016.

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS) (Continued)

b) Five highest paid individuals

Of the five highest paid individuals, one (2016: one) was Director of the Company and the remuneration has been included in the Directors' remuneration. The total emoluments payable to the five highest paid individuals for the year are as follows:

| | 2017 US\$'000 | 2016 US\$'000 |
|--------------------------------------------|------------------|------------------|
| Fees | — | — |
| Salaries and other emoluments | 3,111 | 3,050 |
| Pension costs - defined contribution plans | 7 | 85 |
| | 3,118 | 3,135 |

The above remuneration of the top five individuals fell within the following bands:

| | | Number of individuals | |
|---------------------------------|-------------------------------|-----------------------|----------------|
| | | 2017 | 2016 |
| HK\$1,500,001 - HK\$2,000,000 | (US\$192,505-US\$256,674) | 1 | 1 |
| HK\$2,000,001 - HK\$2,500,000 | (US\$256,674-US\$320,842) | 1 | 1 |
| HK\$3,000,001 - HK\$3,500,000 | (US\$385,010-US\$449,179) | 1 | 1 |
| HK\$5,000,001 - HK\$5,500,000 | (US\$641,684-US\$705,852) | — | 1 |
| HK\$5,500,001 - HK\$6,000,000 | (US\$705,852-US\$770,021) | 1 | — |
| HK\$11,500,001 - HK\$12,000,000 | (US\$1,475,873-US\$1,540,041) | 1 [#] | 1 [#] |
| | | 5 | 5 |

[#] Emoluments relate to a Director

No emolument was paid by the Group to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in respect of the years ended 31 December 2017 and 2016.

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS) (Continued)

c) Senior management

The emoluments paid or payable to members of senior management were within the following bands:

| | | Number of individuals | |
|---------------------------------|-------------------------------|-----------------------|------|
| | | 2017 | 2016 |
| HK\$2,000,001 - HK\$2,500,000 | (US\$256,674-US\$320,842) | 1 | 1 |
| HK\$3,000,001 - HK\$3,500,000 | (US\$385,010-US\$449,179) | 1 | 1 |
| HK\$5,000,001 - HK\$5,500,000 | (US\$641,684-US\$705,852) | — | 1 |
| HK\$5,500,001 - HK\$6,000,000 | (US\$705,852-US\$770,021) | 1 | — |
| HK\$11,500,001 - HK\$12,000,000 | (US\$1,475,873-US\$1,540,041) | 1# | 1# |
| | | 4 | 4 |

Emoluments relate to a Director

8. TAX CREDIT

The amount of taxation in the consolidation statement of comprehensive income represents:

| | 2017 | 2016 |
|-------------------------------|----------|----------|
| | US\$'000 | US\$'000 |
| United Kingdom | | |
| – Current year | (177) | (483) |
| Deferred tax credit (note 23) | (2,805) | (2,282) |
| Tax credit | (2,982) | (2,765) |

No provision for profits tax has been made in these financial statements as all the Group's companies which are subject to such tax have sustained losses for taxation purposes for the years ended 31 December 2017 and 2016. Overseas tax is calculated at the rates applicable in the respective jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS

8. TAX CREDIT (Continued)

A tax credit of US\$2,805,000 (2016: US\$2,282,000) represents the deferred tax credit arising on the amortisation charge for the year relating to the intangible asset of the patent Fortacin™.

Share of associates' tax credit for the year ended 31 December 2017 of US\$75,000 (2016: US\$86,000) is included in profit or loss as share of results of associates.

Reconciliation between the Group's tax credit and accounting loss at applicable tax rates are as follows:

| | 2017 US\$'000 | 2016 US\$'000 |
|------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Loss before income tax: | (30,345) | (5,229) |
| Add: | | |
| Share of results of associates | 1,067 | 831 |
| Loss before share of results of associates and income tax | (29,278) | (4,398) |
| Nominal tax on loss before income tax, calculated at the rate applicable to profits in the tax jurisdictions concerned | (4,848) | (1,369) |
| Income not subject to taxation | (861) | (5,951) |
| Expenses not deductible for taxation purposes | 3,287 | 4,555 |
| Utilisation of tax loss previously not recognised | (383) | — |
| Tax relief on research and development expenses | (177) | — |
| Tax credit | (2,982) | (2,765) |

9. DIVIDENDS

No dividend was paid or proposed during the year of 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

10. LOSSES PER SHARE

The calculation of basic losses per share is based on the loss attributable to the shareholders for the year of US\$27,359,000 (2016: US\$2,460,000) and on the weighted average number of ordinary shares of 1,810,949,812 (2016: 1,479,245,409) in issue during the year.

There were no share options outstanding as at 31 December 2017. The share options outstanding had an anti-dilutive effect on the basic losses per share of the Group for the year ended 31 December 2016, and accordingly, the effect of the share options was not included in the calculation of diluted losses per share for the year ended 31 December 2016.

11. GOODWILL

| | 2017 US\$'000 | 2016 US\$'000 |
|------------------------------|------------------|------------------|
| At 1 January and 31 December | | |
| Gross carrying amount | 15,271 | 15,271 |
| Accumulated impairment | (15,271) | (15,271) |
| Net carrying amount | — | — |

Goodwill arose from the acquisition of a subsidiary and business in the coking coal industry in 2007 and was fully impaired in 2011.

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

| | Furniture and fixtures US\$'000 | Computer and other equipment US\$'000 | Total US\$'000 |
|-----------------------------------------|------------------------------------------|------------------------------------------------|-------------------|
| At 1 January 2016 | | | |
| Cost | 345 | 211 | 556 |
| Accumulated depreciation | (304) | (204) | (508) |
| Net book amount | 41 | 7 | 48 |
| Year ended 31 December 2016 | | | |
| Opening net book amount | 41 | 7 | 48 |
| Additions | — | 32 | 32 |
| Disposals | — | (4) | (4) |
| Acquisition of a subsidiary (note 32) | — | 85 | 85 |
| Depreciation charge for the year | (41) | (29) | (70) |
| Depreciation written back on disposals | — | 4 | 4 |
| Foreign currency translation adjustment | — | (11) | (11) |
| Closing net book amount | — | 84 | 84 |
| At 31 December 2016 | | | |
| Cost | 345 | 341 | 686 |
| Accumulated depreciation | (345) | (257) | (602) |
| Net book amount | — | 84 | 84 |
| Year ended 31 December 2017 | | | |
| Opening net book amount | — | 84 | 84 |
| Additions | — | 9 | 9 |
| Disposals | — | (2) | (2) |
| Depreciation charge for the year | — | (36) | (36) |
| Depreciation written back on disposals | — | 2 | 2 |
| Foreign currency translation adjustment | — | 6 | 6 |
| Closing net book amount | — | 63 | 63 |
| At 31 December 2017 | | | |
| Cost | 345 | 357 | 702 |
| Accumulated depreciation | (345) | (294) | (639) |
| Net book amount | — | 63 | 63 |

NOTES TO THE FINANCIAL STATEMENTS

13. INTANGIBLE ASSET

| | Economic rights US\$'000 | Patent (Fortacin™) US\$'000 | Total US\$'000 |
|-----------------------------------------------------------------------------------------------------------------|--------------------------------|-----------------------------------|-------------------|
| At 1 January 2016 | | | |
| Cost | 3,667 | — | 3,667 |
| Accumulated amortisation | (226) | — | (226) |
| Net carrying amount | 3,441 | — | 3,441 |
| Year ended 31 December 2016 | | | |
| Opening net carrying amount | 3,441 | — | 3,441 |
| Addition – Fortacin™, arising from acquisition of Plethora (note 32) | — | 216,000 | 216,000 |
| Disposal of Sharwood Limited's ("Sharwood") promissory note arising from acquisition (see below and note 32) | (3,376) | — | (3,376) |
| Amortisation charge for the year | (65) | (22,822) | (22,887) |
| Closing net carrying amount | — | 193,178 | 193,178 |
| At 31 December 2016 | | | |
| Cost | — | 216,000 | 216,000 |
| Accumulated amortisation | — | (22,822) | (22,822) |
| Net carrying amount | — | 193,178 | 193,178 |
| Year ended 31 December 2017 | | | |
| Opening net carrying amount | — | 193,178 | 193,178 |
| Amortisation charge for the year | — | (28,047) | (28,047) |
| Closing net carrying amount | — | 165,131 | 165,131 |
| At 31 December 2017 | | | |
| Cost | — | 216,000 | 216,000 |
| Accumulated amortisation | — | (50,869) | (50,869) |
| Net carrying amount | — | 165,131 | 165,131 |

NOTES TO THE FINANCIAL STATEMENTS

13. INTANGIBLE ASSET (Continued)

As at 31 December 2017, intangible asset of US\$165,131,000 (31 December 2016: US\$193,178,000) represents patent Fortacin™, the principal asset of Plethora, which was acquired by the Group in 2016, details of which are set out in note 32.

During the year ended 31 December 2016, the intangible asset of US\$3,376,000 representing, in substance, an economic right to a certain share of Plethora's future royalty income it derived from its principal asset, the patent Fortacin™ which was acquired in June 2015, was treated as part of the consideration for the acquisition of Plethora (note 32). Upon completion of the acquisition of the entire issued and to be issued ordinary share capital of Plethora the Group did not already own on 9 March 2016, Plethora transitioned from an associate to a wholly-owned subsidiary. Under HKFRS 3, the Group was required to assess the fair value all of Plethora's assets and liabilities at the acquisition date. As a result of this exercise, the Group recognised an intangible asset (the patent Fortacin™) in the amount of GBP 175 million (equivalent to approximately US\$216 million) and a related deferred tax liability on this patent of GBP 17.5 million (equivalent to approximately US\$21.6 million). The life of the patent Fortacin™ is till 19 November 2023, and it is accordingly amortised on a straight-line basis from 9 March 2016 to that date.

During the year ended 31 December 2017, the Group determined that there was no impairment of intangible asset, patent Fortacin™, in respect of the cash generating unit ("CGU"), Plethora (31 December 2016: Nil). The recoverable amount of this CGU has been determined based on a value in use calculation with reference to a professional valuation performed by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent expert valuation firm. The calculation was essentially the same basis/model as used to determine the fair value of the identifiable assets and liabilities of the CGU as at 9 March 2016, and covered a period up to 2023 representing the remaining estimated useful life of the patent Fortacin™. The rates used to discount the cash flows forecast were in the range of 15% to 16% (31 December 2016: 15% to 18%). The key assumptions for the value in use calculations were those regarding the discount rates, exchange rates, growth rates and royalty rates and launch dates in respect of the five major regions identified in management's business model and the premature ejaculation prevalence rate of 25% (31 December 2016: 25%). The value in use figure determined as at 31 December 2017 was higher than the carrying amount of the CGU and accordingly no impairment loss was considered necessary.

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES

(i) At 31 December 2017, the Group's associates and their carrying value comprised the following:

| | 2017 US\$'000 | 2016 US\$'000 |
|-------------------------------------------------------------|------------------|------------------|
| The Diabetic Boot Company Limited ("Diabetic Boot") | 1 | 3,054 |
| West China Coking & Gas Company Limited ("West China Coke") | 1 | 1 |
| | 2 | 3,055 |

Share of associates' tax credit for the year ended 31 December 2017 of US\$75,000 (2016: US\$86,000) is included in profit or loss as share of results of associates.

Particulars of the associates as at 31 December 2017 are as follows:

| Name of associate | Country of incorporation/ continuation/ operation | Type of legal entity | Issued and fully paid share capital held in associate | Percentage of equity interest attributable to the Company | | Principal activities |
|-------------------|---------------------------------------------------------|------------------------------------|-------------------------------------------------------|-----------------------------------------------------------|------|-----------------------------------------------------------------------|
| | | | | 2017 | 2016 | |
| Held directly: | | | | | | |
| Diabetic Boot | United Kingdom | UK Limited Liability Company | Ordinary shares of GBP133.23 | 22% | 22% | Design, promotion and production of medical products |
| Held indirectly: | | | | | | |
| West China Coke | The People's Republic of China | Sino-foreign Joint Venture Company | Injected capital of RMB79,910,000 | 25% | 25% | Production, processing and sale of coal, coke, gas and coal chemicals |

There are no significant restrictions on the ability of associates to transfer funds to the Group in form of cash dividends, or to repay loans or advances made by the Group.

There are no material contingent liabilities or commitments relating to the Group's interests in the associates.

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES (Continued)

(ii) Movements in interests in associates are summarised in the table below:

| | 2017 US\$'000 | 2016 US\$'000 |
|----------------------------------------------------------------------------------------------|------------------|------------------|
| As at 1 January | 3,055 | 17,295 |
| Loss on deemed disposal of an associate, Plethora (note 14(iii)) | — | (2,678) |
| Reclassification of the interest in Plethora to subsidiary (note 14(iii) and (note 32)) | — | (14,046) |
| Reclassification of the interest in Diabetic Boot from AFS financial assets (note 14(iv)) | — | 2,661 |
| Gain from bargain purchase of Diabetic Boot (note 14(iv)) | — | 1,356 |
| Impairment loss of Diabetic Boot (note 14(v)) | (1,875) | (97) |
| Share of results of associates | (1,067) | (831) |
| Exchange loss on translation of financial statements of associates | (111) | (605) |
| As at 31 December | 2 | 3,055 |

(iii) Loss on deemed disposal of an associate arising from Plethora reclassified as a subsidiary as of 9 March 2016

As explained in more detail in note 32, the Group acquired all of Plethora's issued and to be issued ordinary share capital that it did not already own by way of a scheme of arrangement on 9 March 2016. Plethora subsequently became a wholly-owned subsidiary of the Group. Under HKFRS 3 ("HKFRS 3"), the Group was required to re-measure its previously held equity interest in Plethora (amounting to 86,799,490 shares) at its acquisition date fair value and recognise the resulting gain or loss in profit or loss.

| | 2016 US\$'000 |
|-----------------------------------------------------------------------------------|------------------|
| Carrying value of interest in Plethora at 1 January 2016 | 17,294 |
| Add: Share of Plethora's profit to 9 March 2016 | 17 |
| Less: Share of current period exchange reserve movement | (587) |
| Carrying value of interest in Plethora at 9 March 2016 | 16,724 |
| Less: Fair value of equity interest in Plethora at 9 March 2016 | (14,046) |
| Loss on deemed disposal | 2,678 |
| Add: Release of foreign currency translation reserve related interest in Plethora | 3,127 |
| Loss on deemed disposal of an associate (Plethora) recognised in profit or loss | 5,805 |

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES (Continued)

- (iv) Diabetic Boot reclassified as an associate from AFS financial assets as of 11 May 2016

The Diabetic Boot Company Limited is a private limited company incorporated in the United Kingdom. It is essentially a single product medical device company focused on the treatment of diabetic foot ulcers ("DFUs"), which are a comorbidity of diabetes mellitus. Currently, the treatment options available for DFUs are very narrow and have limited efficacy. Diabetic Boot has a unique and patented technology offering to treat DFUs under the trade name "PulseFlowDF". This cutting-edge technology combines two proven treatment strategies – offloading and intermittent pneumatic compression, in an innovative Class II medical device. The device features a biomechanically active but unobtrusive design and state-of-the-art construction materials to simultaneously increase blood flow, offload the wound and protect the foot from further injury.

The Company first acquired an interest in Diabetic Boot in 2015, purchasing 89,753 shares for a consideration of US\$1,842,000. This investment represented an interest of 16.79% of Diabetic Boot's then issued share capital, and was accounted for as an AFS financial asset in the Group's consolidated statement of financial position at 31 December 2015.

On 19 April 2016, the Company entered into a Binding Term Sheet (the "**Agreement**") with Diabetic Boot to potentially acquire a further 130,434 new Diabetic Boot shares at GBP 23 per share (US\$32.84 per share) in cash and 65,217 warrants each exercisable at GBP 26.45 per share (or approximately US\$37.76 per share) for an aggregate consideration of GBP 2,999,982 (or approximately US\$4,283,074). The Agreement provided for these additional shares to be acquired and paid over three equal tranches. The three tranches had final dates at which the relevant conditions/performance obligations for each such tranche had to be satisfied by Diabetic Boot or waived by the Company, being 31 May 2016, 30 September 2016 and 31 December 2016 respectively. The Company essentially had: (i) a conditional obligation to acquire the Tranche 1 and 2 shares and warrants upon Diabetic Boot fulfilling or satisfying its Tranche 1 and 2 conditions/performance obligations set out under the Agreement or such conditions/performance obligations being waived by the Company; and (ii) a right (option) to acquire Tranche 3 shares and warrants irrespective of whether Diabetic Boot was able to fulfill its conditions/performance obligations set out under the Agreement. Diabetic Boot fulfilled the conditions/performance obligations of Tranche 1 on 11 May 2016, and the Company accordingly acquired the Tranche 1 shares and warrants. At 11 May 2016, the Company's interest in Diabetic Boot increased to approximately 23%, which was subsequently diluted to 22% by way of a further placement of shares to third parties on 2 June 2016. The Tranche 2 and 3 conditions/performance obligations were not satisfied within the stipulated timeframes and, consequently, the Company had no obligation to subscribe to these tranches, and the Company elected not to take up its option to acquire these shares/warrants. Further details of the terms and conditions in the Agreement are set out in the Company's announcement to shareholders dated 20 April 2016.

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES (Continued)

- (iv) Diabetic Boot reclassified as an associate from AFS financial assets as of 11 May 2016 (Continued)

Under the Agreement, upon the purchase of Tranche 1 shares, the Company also acquired the right to nominate two persons to Diabetic Boot's board of directors. Under HKAS 28 "Investments in Associates and Joint Ventures" ("HKAS 28"), an investor equity accounts for its interest in an investee as an associate when it has significant influence. As the Company held more than a 20% equity interest in Diabetic Boot and had the ability to influence Diabetic Boot's policies and operations via its ability to nominate persons to its board of directors, the Group considered it had significant influence and accordingly equity accounted for its interest in Diabetic Boot as an associate as of 11 May 2016.

Under HKAS 28 and the Group's accounting policies, when Diabetic Boot was first accounted for as an associate:

- (i) the Group was required to calculate goodwill based on the consideration paid and the share of fair value of net assets acquired. If the sum of this consideration was lower than the fair value of the net assets acquired, the difference was recognised in profit or loss as a gain from bargain purchase;
- (ii) a critical component of the fair value of Diabetic Boot's assets and liabilities on the date it became an associate, being the fair value of its "PulseFlowDF" patented technology, was not reflected in the financial statements of Diabetic Boot. To assist the Directors to fair value this intangible asset, the Company engaged an independent expert valuation firm, Grant Sherman, to determine the fair value of that asset. Key assumptions underlying that valuation, which the Directors reviewed and adopted are set out below; and
- (iii) in respect of the previously held interest in Diabetic Boot which was accounted for as an AFS financial asset, under HKAS 28/HKFRS 3 it was treated as if it was disposed of and reacquired at fair value at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES (Continued)

(iv) Diabetic Boot reclassified as an associate from AFS financial assets as of 11 May 2016 (Continued)

Fair value of Diabetic Boot's assets and liabilities as of 11 May 2016 are set out below:

| | Fair value US\$'000 | Carrying value US\$'000 |
|------------------------------------------------------------|------------------------|----------------------------|
| Property, plant and equipment | 80 | 80 |
| Intangible asset - PulseFlowDF* | 19,405 | — |
| Inventories | 427 | 427 |
| Trade and other receivables | 467 | 467 |
| Cash and cash equivalents | 1,011 | 1,011 |
| Trade and other payables | (447) | (447) |
| Income tax payable | (16) | (16) |
| Deferred tax liability (arising from the intangible asset) | (3,493) | — |
| | 17,434 | 1,522 |

* The valuation of PulseFlowDF was based on the "Relief-from-Royalty method", whereby the value of the patent is based on the present worth of future economic benefits to be derived from the projected royalty income. This method is widely accepted and commonly used valuation method to value intangible assets, including patents and trademarks. Key assumptions underlying the valuation were Diabetic Boot's market penetration rate, the rate at which the diabetic population would grow, a discount rate of 31.8%, a royalty rate and life of the patent. A corresponding deferred tax liability of US\$3,493,000 was determined based on the valuation of the patent under the "Relief-from-Royalty method" using the expected corporate tax rate at which the royalty income from this intangible asset would be taxed.

Calculation of bargain purchase gain of Diabetic Boot as at 11 May 2016 is set out below:

| | US\$'000 |
|-------------------------------------------------------------------------------------------------|----------|
| Carrying value of previously held interest in Diabetic Boot carried forward at 1 January 2016 | 1,842 |
| Add: Attributable costs of additional 43,478 shares acquired in Diabetic Boot under Tranche 1 | 819 |
| Total cost | 2,661 |
| Less: Attributable share of Diabetic Boot's net assets at fair value (23.04% of US\$17,434,000) | 4,017 |
| Gain from bargain purchase on Diabetic Boot interest recognised in profit or loss | 1,356 |

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES (Continued)

(v) Assessment for impairment of associates

During the year ended 31 December 2017, the application of a new product specific code from the U.S. Centers for Medicare & Medicaid Services (“**Medicare**”) for PulseFlowDF by Diabetic Boot was rejected. As management expects Medicare to require additional clinical data and justification of product need in the US market before granting a code, there is no definite timeline to do so. In addition, in view of the recurring operating losses of Diabetic Boot, the Directors of the Company consider that indicators of impairment existed in respect of the investment in Diabetic Boot and accordingly, an impairment loss of US\$1,875,000 has been recognised in profit or loss for the Group’s interests in Diabetic Boot for the year ended 31 December 2017.

During the year ended 31 December 2016, the Directors carried out an impairment assessment by determining whether the recoverable amount of the interest in Diabetic Boot was greater than its carrying value. To determine the recoverable amount, the Directors carried out a value in use calculation using essentially the same basis/model as used in the exercise to determine the fair value of the associate’s net assets on acquisition date (as set out in (iv) above). The recoverable amount of the Group’s interest in Diabetic Boot was calculated based on cash flow forecasts covering a period up to 2026 representing the remaining estimated useful life of the patent. The rate used to discount the forecast cash flows was 30.63%. The key assumptions for the value in use calculations were Diabetic Boot’s market penetration rate, the rate at which the diabetic population would grow, royalty rate and life of the patent. The value in use figure determined as at 31 December 2016 was lower than the carrying value of the interest in the associate and accordingly, an impairment loss of US\$97,000 was recognised in profit or loss for the year ended 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES (Continued)

(vi) Summarised financial information of associates

The following table illustrates the summarised aggregate financial information of the Group's material associate, Diabetic Boot, as at 31 December 2016/for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards which are equivalent to HKFRSs and adjusted for the effect of the fair value adjustments at the dates Diabetic Boot became an associate of the Group.

| | 2016 US\$'000 |
|------------------------------------------------|------------------|
| As at 31 December | |
| Non-current assets [^] | 17,825 |
| Current assets | 1,377 |
| Current liabilities | (554) |
| Non-current liabilities | (4,766) |
| Net assets | 13,882 |
| Included in the above amounts are: | |
| Cash and cash equivalents | 59 |
| For the year ended 31 December | |
| Revenue | 156 |
| Loss for the year | (3,855) |
| Other comprehensive income for the year | (82) |
| Total comprehensive income for the year | (3,937) |
| Dividend received from an associate | — |
| Included in the above amounts are: | |
| Depreciation and amortisation | (1,247) |
| Interest income | 1 |
| Interest expense | — |
| Tax credit | 224 |

[^] It comprises primarily of the intangible asset, PulseFlowDF, as explained in note 14(iv).

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES (Continued)

(vi) Summarised financial information of associates (Continued)

Reconciliation to the carrying amount of the Group's interests in associates:

| | Diabetic Boot 2016 US\$'000 |
|-------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| Net assets attributable to the equity holders of the associate | 14,321 |
| Group's effective interest | 22% |
| Group's share of net assets of the associate | 3,151 |
| Impairment loss (note 14(v)) | (97) |
| Goodwill | — |
| Carrying amount of the Group's interest in the associate in the consolidated financial statements (note 14(i)) | 3,054 |

The following table illustrates the summarised aggregate financial information of the associates, Diabetic Boot and West China Coke (2016: West China Coke), which is not material to the Group.

| | Diabetic Boot and West China Coke 2017 US\$'000 | West China Coke 2016 US\$'000 |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|----------------------------------------|
| For the year ended 31 December | | |
| Aggregate carrying amount of individually immaterial associates in the consolidated financial statements | 2 | 1 |
| Aggregate amount of the Group's share of those associates | | |
| Loss for the year | (1,067) | — |
| Other comprehensive income for the year | (111) | — |
| Total comprehensive income for the year | (1,178) | — |

NOTES TO THE FINANCIAL STATEMENTS

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2017 US\$'000 | 2016 US\$'000 |
|------------------------------------------------------|------------------|------------------|
| As at 1 January | 1,726 | 5,367 |
| Additions | 199 | 819 |
| Disposals | — | (1,799) |
| Reclassified to interest in associates (note 14(iv)) | — | (2,661) |
| As at 31 December | 1,925 | 1,726 |

AFS financial assets include the following:

| | 2017 US\$'000 | 2016 US\$'000 |
|----------------------------|------------------|------------------|
| Unlisted securities | | |
| Club debenture, at cost | 19 | 19 |
| Equity securities, at cost | 1,906 | 1,707 |
| | 1,925 | 1,726 |

AFS financial assets include investments in certain unlisted securities, which are measured at cost less impairment as there is no quoted market price in active markets for the investments and the variability in the range of reasonable fair value estimates of the investments is so significant that the Directors are of the opinion that their fair values cannot be measured reliably. The Group plans to hold these investments for the foreseeable future.

During the year ended 31 December 2017, there was no impairment on the Group's investment in AFS financial assets (2016: nil).

NOTES TO THE FINANCIAL STATEMENTS

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2017 US\$'000 | 2016 US\$'000 |
|----------------------|------------------|------------------|
| As at 1 January | 7,386 | 8,146 |
| Disposals | (3,092) | (3,634) |
| Change in fair value | 4,484 | 2,874 |
| As at 31 December | 8,778 | 7,386 |

Financial assets at fair value through profit or loss include the following:

| | 2017 US\$'000 | 2016 US\$'000 |
|----------------------------------|------------------|------------------|
| Held for trading – overseas | | |
| – Listed equities, at fair value | 8,778 | 7,386 |

The fair value of listed equity investments were based on last quoted market prices at the reporting date.

Certain of the Group's financial assets that are accounted at fair value through profit or loss, namely its equity interests in Australian listed shares including holdings in Venturex Resources Limited ("**Venturex**"), Bannerman Resources Limited ("**Bannerman**") and Tigers Realm Coal Limited ("**Tigers Realm**"), of which the aggregate market value as at 31 December 2017 was approximately A\$10.04 million (or equivalent to US\$7.84 million), were pledged as security to the Australian Commissioner of Taxation against an assessment in relation to a potential liability for Australian capital gains tax arising from the gain on disposal of an Australian listed security in 2013. Further details of this assessment and the security given by the Company are set out in note 31 and the section headed "Charge on Assets" in the "Management's Discussion and Analysis of the Group's Performance".

Particulars of the Group's principal investment in listed equities as at 31 December 2017 are as follows:

| Name of company | Country of incorporation | Issued and fully paid share capital | Percentage of equity interest attributable to the Company | | Carrying value at 31 December 2017 | Carrying value at 31 December 2016 |
|-----------------|--------------------------|-------------------------------------|-----------------------------------------------------------|--------|------------------------------------|------------------------------------|
| | | | 2017 | 2016 | | |
| Venturex | Australia | 587,184,484 ordinary shares | 16.32% | 22.48% | US\$7,795,000 | US\$3,386,000 |

One of the Group's strategic investments is a 16.32% (2016: 22.48%) interest in Venturex. For the years ended 31 December 2017 and 2016, this company was not accounted for under the equity method as the Group did not have the power to participate in the company's operating and financial policies, evidenced by the lack of any direct or indirect involvement at board level.

NOTES TO THE FINANCIAL STATEMENTS

17. CASH AND BANK BALANCES

| | 2017 US\$'000 | 2016 US\$'000 |
|--------------------------------|------------------|------------------|
| Cash and balances with banks | 1,787 | 291 |
| Money at call and short notice | 464 | — |
| | 2,251 | 291 |

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2017 US\$'000 | 2016 US\$'000 |
|---------------------------------------------|------------------|------------------|
| Prepayments, deposits and other receivables | 681 | 614 |

The fair value of deposits and other receivables were the same as illustrated above.

The balance outstanding as at 31 December 2017 and 2016 were neither past due nor impaired.

19. TRADE PAYABLES, DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

| | 2017 US\$'000 | 2016 US\$'000 |
|------------------------------------------------|------------------|------------------|
| Trade payables | 182 | 1,591 |
| Deposits received, accruals and other payables | 3,361 | 4,283 |
| | 3,543 | 5,874 |

At 31 December 2017 and 2016, the ageing analysis of the trade payables, based on their invoice dates, was as follows:

| | 2017 US\$'000 | 2016 US\$'000 |
|----------------------------------------|------------------|------------------|
| Due within 1 month or on demand | — | 98 |
| Due after 3 months but within 6 months | 182 | 592 |
| More than 6 months | — | 901 |
| | 182 | 1,591 |

NOTES TO THE FINANCIAL STATEMENTS

19. TRADE PAYABLES, DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES (Continued)

During the year ended 31 December 2016, the Directors decided to derecognise certain trade payables amounting to US\$99,000 (including US\$29,000 held in trust accounts) and other payables of US\$50,000 as they were outstanding for around 10 years and had passed the statute of limitations in Hong Kong. This action resulted in other income of US\$149,000 being recognised in profit or loss for the year ended 31 December 2016.

The fair value of trade payables, deposits received, accruals and other payables approximates their respective carrying amounts at the reporting date.

20. SHARE CAPITAL

| Authorised: | Number of ordinary shares of US\$0.01 each [#] | US\$'000 | Number of unclassified shares* | US\$'000 | Total number of shares | Total US\$'000 |
|----------------------------------------------------------|---------------------------------------------------------------|----------|--------------------------------------|----------|---------------------------|-------------------|
| At 31 December 2017 and 31 December 2016 [#] | 2,300,000,000 | 23,000 | 55,000,000 | 550 | 2,355,000,000 | 23,550 |

* These are unclassified shares of US\$0.01 each, which may be issued as ordinary shares or as non-voting convertible deferred shares of US\$0.01 each.

The authorised share capital of the Company was increased pursuant to an ordinary resolution passed at the Company's extraordinary general meeting held on 2 March 2016, as detailed in the shareholders' circular issued by the Company on 4 February 2016, and was altered by: (i) the 10 for 1 share consolidation, pursuant to an ordinary resolution passed at the Company's extraordinary general meeting held on 8 June 2016, which took effect on 10 June 2016, as detailed in the shareholders' circular and announcement issued by the Company on 13 May 2016 and 8 June 2016 respectively (the "**Share Consolidation**"); and (ii) the capital reduction, pursuant to a special resolution passed at the Company's extraordinary general meeting held on 19 August 2016, which took effect on 12 October 2016 (in the Cayman Islands), which was 13 October 2016 in Hong Kong, following the approval by the Grand Court of the Cayman Islands, as detailed in the shareholders' circular and announcement issued by the Company on 20 July 2016 and 14 October 2016 respectively (the "**Capital Reduction**").

Before the Share Consolidation taking effect on 10 June 2016:

| Issued and fully paid: | Number of ordinary shares of US\$0.01 each | US\$'000 | Number of unclassified shares* | US\$'000 | Total number of shares | Total US\$'000 |
|-----------------------------------------------------------------------------|--------------------------------------------------|----------|--------------------------------------|----------|---------------------------|-------------------|
| At 1 January 2016 | 3,485,730,523 | 34,857 | — | — | 3,485,730,523 | 34,857 |
| Allotment of consideration shares to acquire Plethora on 9 March 2016 | 13,886,781,298 | 138,868 | — | — | 13,886,781,298 | 138,868 |
| | 17,372,511,821 | 173,725 | — | — | 17,372,511,821 | 173,725 |

* These are unclassified shares of US\$0.01 each, which may be issued as ordinary shares or as non-voting convertible deferred shares of US\$0.01 each.

NOTES TO THE FINANCIAL STATEMENTS

20. SHARE CAPITAL (Continued)

Upon the Share Consolidation taking effect on 10 June 2016:

| Issued and fully paid: | Number of ordinary shares of US\$0.10 each ^{##} | US\$'000 | Number of unclassified shares* | US\$'000 | Total number of shares | Total US\$'000 |
|------------------------------|----------------------------------------------------------------|----------|--------------------------------------|----------|---------------------------|-------------------|
| At 10 June 2016 [#] | 1,737,251,182 | 173,725 | — | — | 1,737,251,182 | 173,725 |

* These are unclassified shares of US\$0.10 each, which may be issued as ordinary shares or as non-voting convertible deferred shares of US\$0.10 each

^{##} The issued share capital of the Company was altered by the Share Consolidation.

Upon the Capital Reduction taking effect on 12 October 2016 (in the Cayman Islands), which was 13 October 2016 in Hong Kong:

| Issued and fully paid: | Number of ordinary shares of US\$0.01 each ^{###} | US\$'000 | Number of unclassified shares* | US\$'000 | Total number of shares | Total US\$'000 |
|--------------------------------------------------------------|-----------------------------------------------------------------|----------|--------------------------------------|----------|---------------------------|-------------------|
| At 12 October 2016 [#] and 31 December 2016 | 1,737,251,182 | 17,372 | — | — | 1,737,251,182 | 17,372 |
| Shares issued by way of a placing and top-up subscription | 100,000,000 | 1,000 | — | — | 100,000,000 | 1,000 |
| At 31 December 2017 | 1,837,251,182 | 18,372 | — | — | 1,837,251,182 | 18,372 |

* These are unclassified shares of US\$0.01 each, which may be issued as ordinary shares or as non-voting convertible deferred shares of US\$0.01 each.

^{###} The issued share capital of the Company was altered by the Capital Reduction.

During the year ended 31 December 2017 and prior to the date of this report, there were no changes in the authorised share capital of the Company.

As at 1 January 2017, the total issued ordinary share capital of the Company consisted of 1,737,251,182 shares.

During the year ended 31 December 2017:

- (1) an aggregate of 100,000,000 new ordinary shares were issued and allotted by the Company on 7 April 2017, pursuant to the general mandate granted to the Directors at the Company's annual general meeting held on 8 June 2016 (as adjusted for the Share Consolidation), at the price of HK\$0.405 per share by way of a placing and top-up subscription (as detailed in the announcements issued by the Company on 29 March and 7 April 2017), for an aggregate amount of cash consideration of HK\$40,500,000 (or approximately US\$5,21 million); and
- (2) no shares were repurchased by the Company.

NOTES TO THE FINANCIAL STATEMENTS

20. SHARE CAPITAL (Continued)

The proceeds of the subscription, net of issuing expenses, amounted to US\$4,946,000, of which US\$1,000,000 was credited to the share capital account and the remaining balance of US\$3,946,000 was credited to the share premium account.

As noted in the announcement issued by the Company on 29 March 2017, the Company intended to use the net proceeds from the subscription to strengthen the financial position of the Group and to provide additional funding to further develop the Group's business. In particular, the net proceeds from the subscription would be used to: (i) fund the New Drug Application process with the US Food and Drug Administration and the continued commercial manufacturing scale up of Fortacin™, of which approximately US\$2.46 million of the net amount raised were expended as at 31 December 2017; (ii) fund the build out of the Group's healthcare and life sciences platform by investing in further identified and unidentified investments in the sector, of which approximately US\$0.2 million of the net amount raised were expended as at 31 December 2017; and, in respect of the balance: (iii) provide general working capital for the Group, of which approximately US\$2.29 million of the net amount raised were expended as at 31 December 2017.

Accordingly, as at 31 December 2017, the total issued ordinary share capital of the Company consisted of 1,837,251,182 shares.

Subsequent to the year end date and prior to the date of this report, no new shares were issued and allotted by the Company, and no shares were repurchased by the Company.

Details of the Company's share option schemes are set out below.

The share option schemes (namely the "Share Option Scheme (2002)" and the "Share Option Scheme (2016)"), as detailed below) provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to the eligible participants (including directors, executives, employees, consultants and service providers of the Company and its subsidiaries). The schemes may, at the discretion of the Directors, be used in conjunction with any cash based compensation, incentive compensation or bonus plan.

NOTES TO THE FINANCIAL STATEMENTS

20. SHARE CAPITAL (Continued)

The total number of shares which may be issued upon exercise of all options to be granted under the respective schemes, when aggregated with any shares which may be issued upon exercise of options to be granted under other schemes of the Company, shall not exceed 10% of the total issued ordinary share capital of the Company as at the commencement date of the respective schemes (or such proportion of the issued share capital of the Company as from time to time specified in the HK Listing Rules). The Company may seek shareholders' approval at a general meeting for "refreshing" the 10% limit under the schemes so that the total number of shares which may be issued upon exercise of all options to be granted under the respective schemes, when aggregated with any shares which may be issued upon exercise of options to be granted under other schemes of the Company, shall not exceed 10% of the total issued ordinary share capital of the Company as at the date of the approval of the "refreshed" limit. Options previously granted under the schemes (including those outstanding, cancelled or lapsed in accordance with the schemes or exercised options) will not be counted for the purpose of calculating the limit as "refreshed". In any circumstances, the aggregate limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the respective schemes and any other schemes of the Company must not exceed 30% of the ordinary shares of the Company in issue from time to time. The Company may also seek separate shareholders' approval at a general meeting for granting options beyond the 10% limit provided that the options in excess of the limit are granted only to participants specifically identified by the Company before such approval is sought.

The number of shares issued or issuable upon exercise of the options granted to any individual eligible participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the ordinary shares of the Company in issue, subject to the restrictions on grants to the Directors, chief executive or substantial shareholders of the Company as set out in the HK Listing Rules.

Each grant of options to any of the Directors, chief executive or substantial shareholders of the Company, or any of their respective associates, under the schemes must be approved by the Company's Independent Non-Executive Directors (excluding the Independent Non-Executive Director(s) who is/are the grantee(s) of the option(s)). Where any grant of options to a substantial shareholder or an Independent Non-Executive Director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the proposed offer of such grant representing in aggregate over 0.1% of the ordinary shares of the Company in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be subject to shareholders' approval.

NOTES TO THE FINANCIAL STATEMENTS

20. SHARE CAPITAL (Continued)

An offer of the grant of an option shall remain open for acceptance by the eligible participant concerned for a period of 28 days inclusive of and from the date on which such offer is made to that eligible participant or such shorter period as the Directors may in their absolute discretion determine. An offer which remains capable of acceptance shall be deemed to have been accepted upon the date when the duly completed and signed form of acceptance together with a remittance for HK\$10, being the consideration for the grant thereof, are received by the Company. The option shall, following such acceptance, be deemed to have been granted and to have taken effect on the date of offer.

Options granted under the schemes entitle the holders to exercise one-third of the option at each of the first, second and third anniversary dates after the date of grant, provided that the option holder remains as an eligible participant. Any entitlements unexercised in any prior period may be carried forward to the following periods but, in any event, must be exercised within 10 years from the date of offer of the relevant option. All entitlements of the option then remain unexercised will lapse.

The exercise price is to be determined by the Directors at their absolute discretion when the option is offered, provided that in no event shall such price be less than the higher of: (i) the nominal value of the ordinary shares of the Company; (ii) the closing price of the ordinary shares as stated in the daily quotations sheet of the HK Stock Exchange on the date of offer, which must be a business day; and (iii) the average closing price of the ordinary shares as stated in the daily quotations sheets of the HK Stock Exchange for the five business days immediately preceding the date of offer.

(I) Share Option Scheme (2002)

The Company's share option scheme, named "Share Option Scheme (2002)" (the "**Share Option Scheme (2002)**"), which was adopted with shareholders' approval at the Company's annual general meeting held on 15 November 2002, expired on 15 November 2012, being the tenth anniversary of its commencement date. The provisions of the rules of the Share Option Scheme (2002) remained in full force and effect to the extent necessary to give effect to the exercise of any options granted and remaining outstanding prior to the date of the expiry.

The Company sought shareholders' approval at the extraordinary general meeting held on 16 June 2006 for "refreshing" the 10% limit under the scheme. Accordingly, the maximum number of shares which might be issued upon exercise of all options to be granted after 16 June 2006 under the Share Option Scheme (2002), when aggregated with any shares which might be issued upon exercise of options to be granted under other schemes of the Company, should not exceed 146,538,132 shares, being 10% of the total issued ordinary share capital of the Company as at the date of approval of the "refreshed" limit.

NOTES TO THE FINANCIAL STATEMENTS

20. SHARE CAPITAL (Continued)

(1) Share Option Scheme (2002) (Continued)

As at 1 January 2017, under the Share Option Scheme (2002) there were outstanding and vested options (having been adjusted by the Share Consolidation), entitling the holders to subscribe for an aggregate of 5,703,813 ordinary shares at exercise prices ranging from HK\$7.800 to HK\$11.520 per share (1 January 2016: 111,266,132 shares at exercise prices ranging from HK\$0.300 to HK\$1.152 per share), representing 0.33% (1 January 2016: 3.19%) of the Company's then issued ordinary share capital and 0.33% (1 January 2016: 3.09%) of the enlarged ordinary share capital. All the outstanding options in respect of an aggregate of 5,703,813 shares or 100% were vested (1 January 2016: All the outstanding options in respect of an aggregate of 111,266,132 shares or 100% were vested).

Upon adoption of the Long Term Incentive Plan 2007 on 8 December 2007 (which was terminated on 31 May 2013), no further options under the Share Option Scheme (2002) were granted.

During the year ended 31 December 2017:

- No new options were granted (2016: Nil);
- No vested options were exercised (2016: Nil);
- (i) An outstanding option granted on 15 May 2007 in respect of 1,200,000 shares at the exercise price of HK\$7.800 per share (as noted above, having been adjusted by the Share Consolidation) lapsed on 14 May 2017 upon expiry of the exercise period; and (ii) 11 outstanding options granted on 2 October 2007 in respect of an aggregate of 4,503,813 shares at the exercise price of HK\$11.520 per share (as noted above, having been adjusted by the Share Consolidation) lapsed on 1 October 2017 upon expiry of the exercise period (2016: (i) The outstanding balances of eight options granted on 4 April 2006 in respect of an aggregate of 50,124,000 shares at the exercise price of HK\$0.300 per share (before the adjustment of the Share Consolidation); and (ii) the outstanding balances of six options granted on 14 December 2006 in respect of an aggregate of 410,400 shares at the exercise price of HK\$3.250 per share (having been adjusted by the Share Consolidation) lapsed); and
- No options were cancelled (2016: Nil).

Accordingly, as at 31 December 2017, under the Share Option Scheme (2002) there were no outstanding options entitling the holders to subscribe for the shares of the Company (31 December 2016: Outstanding and vested options in respect of 5,703,813 shares at exercise prices ranging from HK\$7.800 to HK\$11.520, having been adjusted by the Share Consolidation), representing 0% (31 December 2016: 0.33%, having been adjusted by the Share Consolidation) of the Company's then issued ordinary share capital and 0% (31 December 2016: 0.33%, having been adjusted by the Share Consolidation) of the enlarged ordinary share capital.

Following the lapse of all outstanding and vested options on 1 October 2017, the Share Option Scheme (2002) ceased to have any effect.

NOTES TO THE FINANCIAL STATEMENTS

20. SHARE CAPITAL (Continued)

(1) Share Option Scheme (2002) (Continued)

Particulars of the options held under the Share Option Scheme (2002) by various participants were as follows:

(i) *Directors, Chief Executive and substantial shareholders*

As at 1 January 2017, outstanding and vested options, which were granted on 2 October 2007, were held by the Non-Executive Chairman, the Chief Executive Officer (also the Executive Director) and an Independent Non-Executive Director, entitling them to subscribe for an aggregate of 3,100,000 ordinary shares at the exercise price of HK\$11.520 per share (having been adjusted by the Share Consolidation) before 1 October 2017.

During the year ended 31 December 2017:

- No new options were granted;
- No vested options were exercised;
- 3 outstanding options held by the Non-Executive Chairman, the Chief Executive Officer (also the Executive Director) and an Independent Non-Executive Director granted on 2 October 2007 in respect of an aggregate of 3,100,000 shares at the exercise price of HK\$11.520 per share (as noted above, having been adjusted by the Share Consolidation) lapsed on 1 October 2017 upon expiry of the exercise period; and
- No options were cancelled.

Accordingly, as at 31 December 2017, under the Share Option Scheme (2002) there were no outstanding options held by any Directors or the Chief Executive Officer of the Company entitling them to subscribe for the shares of the Company.

Particulars of the options granted to and held by the Directors and the Chief Executive Officer are set out in details under the section headed "Directors' Interests in Securities and Options" in the Directors' Report. No options were granted to or held by any associates of the Directors or the Chief Executive Officer of the Company at any time during the year and prior to the date of this report.

No options were granted to or held by any substantial shareholder of the Company (other than James Mellon who is also the Non-Executive Chairman of the Company), as referred to in the section headed "Substantial Shareholders" in this report, or their respective associates, at any time during the year and prior to the date of this report.

NOTES TO THE FINANCIAL STATEMENTS

20. SHARE CAPITAL (Continued)

(I) Share Option Scheme (2002) (Continued)

(ii) Full-time employees

As at 1 January 2017, outstanding and vested options, which were granted on 2 October 2007, were held by the full-time employees of the Group (excluding the Directors of the Company), entitling them to subscribe for an aggregate of 1,203,813 ordinary shares at the exercise price of HK\$11.520 per share (having been adjusted by the Share Consolidation) before 1 October 2017.

During the year ended 31 December 2017:

- No new options were granted;
- No vested options were exercised;
- 7 outstanding options held by the full-time employees of the Group granted on 2 October 2007 in respect of an aggregate of 1,203,813 shares at the exercise price of HK\$11.520 per share (as noted above, having been adjusted by the Share Consolidation) lapsed on 1 October 2017 upon expiry of the exercise period; and
- No options were cancelled.

Accordingly, as at 31 December 2017, under the Share Option Scheme (2002) there were no outstanding options held by any full-time employees of the Group (excluding the Directors of the Company) entitling them to subscribe for the shares of the Company.

(iii) Participants in excess of individual limit

No participants were granted with options in respect of an aggregate number of shares in the Company which was in excess of the individual limit referred to in the HK Listing Rules at any time during the year ended 31 December 2017 and prior to the date of this report.

NOTES TO THE FINANCIAL STATEMENTS

20. SHARE CAPITAL (Continued)

(I) Share Option Scheme (2002) (Continued)

(iv) Suppliers of goods and services

As at 1 January 2017, outstanding and vested options in respect of an aggregate of 1,400,000 shares were held by the service providers (having been adjusted by the Share Consolidation), details of which are set out below:

1. An option, which was granted on 15 May 2007, entitling a consultant (a former Non-Executive Director who resigned on 12 February 2008 and was appointed as a consultant) to subscribe for 1,200,000 ordinary shares at the exercise price of HK\$7.800 per share (having been adjusted by the Share Consolidation) before 14 May 2017; and
2. An option, which was granted on 2 October 2007, entitling a consultant (a former Independent Non-Executive Director who resigned on 12 February 2008 and was appointed as a consultant) to subscribe for 200,000 ordinary shares at the exercise price of HK\$11.520 per share (having been adjusted by the Share Consolidation) before 1 October 2017.

During the year ended 31 December 2017:

- No new options were granted;
- No vested options were exercised;
- (i) An outstanding option held a consultant granted on 15 May 2007 in respect of 1,200,000 shares at the exercise price of HK\$7.800 per share (as noted above, having been adjusted by the Share Consolidation) lapsed on 14 May 2017 upon expiry of the exercise period; and (ii) an outstanding option held a consultant granted on 2 October 2007 in respect of 200,000 shares at the exercise price of HK\$11.520 per share (as noted above, having been adjusted by the Share Consolidation) lapsed on 1 October 2017 upon expiry of the exercise period; and
- No options were cancelled.

Accordingly, as at 31 December 2017, under the Share Option Scheme (2002) there were no outstanding options held by any service providers entitling them to subscribe for the shares of the Company.

NOTES TO THE FINANCIAL STATEMENTS

20. SHARE CAPITAL (Continued)

(1) Share Option Scheme (2002) (Continued)

(v) *Other participants*

No options were granted to or held by participants other than those referred to in sub-paragraphs (i) to (iv) above at any time during the year ended 31 December 2017 and prior to the date of this report.

(2) Share Option Scheme (2016)

A new share option scheme, named "Share Option Scheme (2016)" (the "**Share Option Scheme (2016)**"), was adopted on 10 June 2016, with shareholders' approval at the Company's extraordinary general meeting held on 8 June 2016, which was followed by the grant by the Listing Committee of the HK Stock Exchange on 10 June 2016 of the listing of, and permission to deal in, the shares to be issued pursuant to the exercise of the options to be granted under the scheme.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme (2016) shall not exceed 173,725,118 shares, being: (i) 10% of the total issued ordinary share capital of the Company as at the commencement of the scheme; (ii) 9.46% of the Company's issued ordinary share capital as at 31 December 2017 and the date of this report; and (iii) 8.64% of the enlarged ordinary share capital.

Since 10 June 2016 and prior to the date of this report, no options were granted under the Share Option Scheme (2016).

NOTES TO THE FINANCIAL STATEMENTS

20. SHARE CAPITAL (Continued)

All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the option in cash.

Share options and the weighted average exercise price are as follows for the reporting periods presented:

| | 2017 | | 2016 | |
|-------------------------------------------------------------|-------------|-----------------------------------------|--------------|-----------------------------------------|
| | Number | Weighted average exercise price HK\$ | Number | Weighted average exercise price HK\$ |
| Outstanding at 1 January | 5,703,813 | 10.737 | 111,266,132 | 0.698 |
| Forfeited | (5,703,813) | 10.737 | (54,228,000) | 0.302 |
| Outstanding at 31 December | — | — | 57,038,132 | 1.074 |
| Outstanding at 31 December after share consolidation (10:1) | N/A | N/A | 5,703,813 | 10.737 |

No option has been exercised during the years ended 31 December 2017 and 2016. The number of options exercisable at the reporting date are as follows:

Share Option Scheme (2002)

| | 2017 | | 2016 | |
|-----------------------------------------|--------|-----------------------------------------|-----------|-----------------------------------------|
| | Number | Weighted average exercise price HK\$ | Number | Weighted average exercise price HK\$ |
| Exercisable beginning in financial year | | | | |
| – 31 December | — | N/A | 5,703,813 | 10.737 |
| Outstanding at 31 December | — | N/A | 5,703,813 | 10.737 |

The weighted average remaining contractual life of the outstanding options as of 31 December 2016 was 0.62 years.

There were no charges to the consolidated statement of comprehensive income or liabilities recognised in respect of employee share-based payments or non-employee share-based payments in relation to share options granted under the Company's Share Option Schemes (2002) for the years ended 31 December 2017 or 2016.

NOTES TO THE FINANCIAL STATEMENTS

21. RESERVES

| | Accumulated losses US\$'000 | Share premium US\$'000 | Share- based payment reserve US\$'000 | Capital redemption reserve US\$'000 | Investment revaluation reserve US\$'000 | Statutory reserve US\$'000 | Foreign currency exchange reserve US\$'000 | Total US\$'000 |
|---------------------------------------------------------------------------------------------------------------|-----------------------------------|------------------------------|---------------------------------------------------|----------------------------------------------|--------------------------------------------------|----------------------------------|--------------------------------------------------------|-------------------|
| <i>Group</i> | | | | | | | | |
| At 1 January 2016 | (284,032) | 275,389 | 2,220 | 8,228 | 1,232 | 176 | 1,014 | 4,227 |
| Consideration shares issued (notes 20 and 32) | — | 4,199 | — | — | — | — | — | 4,199 |
| Capital reduction (note 20) | 156,353 | — | — | — | — | — | — | 156,353 |
| Share options forfeited | 598 | — | (598) | — | — | — | — | — |
| Foreign currency translation adjustment | — | — | — | — | — | — | 390 | 390 |
| Deferral of Day One Gain on derivative financial instruments - Diabetic Boot | — | — | — | — | 526 | — | — | 526 |
| Reclassification to profit or loss on derecognition of derivative financial instruments - Diabetic Boot | — | — | — | — | (526) | — | — | (526) |
| Share of translation reserve of associates (note 14(ii)) | — | — | — | — | — | — | (605) | (605) |
| Reclassification to profit or loss on disposal of AFS financial assets | — | — | — | — | (1,232) | — | — | (1,232) |
| Reclassification to profit or loss on deemed disposal of an associate (note 14(iii)) | — | — | — | — | — | — | 3,127 | 3,127 |
| Loss for the year | (2,460) | — | — | — | — | — | — | (2,460) |
| At 31 December 2016 | (129,541) | 279,588 | 1,622 | 8,228 | — | 176 | 3,926 | 163,999 |
| Share issued by way of a placing and top-up subscription, net of issuing expenses (note 20) | — | 3,946 | — | — | — | — | — | 3,946 |
| Share options forfeited | 1,622 | — | (1,622) | — | — | — | — | — |
| Foreign currency translation adjustment | — | — | — | — | — | — | (25) | (25) |
| Share of translation reserve of associates (note 14(ii)) | — | — | — | — | — | — | (111) | (111) |
| Loss for the year | (27,359) | — | — | — | — | — | — | (27,359) |
| At 31 December 2017 | (155,278) | 283,534 | — | 8,228 | — | 176 | 3,790 | 140,450 |

NOTES TO THE FINANCIAL STATEMENTS

21. RESERVES (Continued)

| | Accumulated losses US\$'000 | Share premium US\$'000 | Share- based payment reserve US\$'000 | Capital redemption reserve US\$'000 | Investment revaluation reserve US\$'000 | Foreign currency exchange reserve US\$'000 | Total US\$'000 |
|------------------------------------------------------------------------------------------------------------|-----------------------------------|------------------------------|---------------------------------------------------|----------------------------------------------|--------------------------------------------------|--------------------------------------------------------|-------------------|
| Company (note 34) | | | | | | | |
| At 1 January 2016 | (291,019) | 277,654 | 2,220 | 8,228 | 1,232 | 1 | (1,684) |
| Consideration shares issued | — | 4,199 | — | — | — | — | 4,199 |
| Capital reduction | 156,353 | — | — | — | — | — | 156,353 |
| Share options forfeited | 598 | — | (598) | — | — | — | — |
| Deferral of Day One Gain on derivative financial instruments - Diabetic Boot | — | — | — | — | 526 | — | 526 |
| Reclassification to profit or loss on derecognition of derivative financial instruments - Diabetic Boot | — | — | — | — | (526) | — | (526) |
| Reclassification to profit or loss on disposal of AFS financial assets | — | — | — | — | (1,232) | — | (1,232) |
| Loss for the year | (6,461) | — | — | — | — | — | (6,461) |
| At 31 December 2016 | (140,529) | 281,853 | 1,622 | 8,228 | — | 1 | 151,175 |
| Shares issued by way of a placing and top-up subscription, net of issuing expenses (note 20) | — | 3,946 | — | — | — | — | 3,946 |
| Share options forfeited | 1,622 | — | (1,622) | — | — | — | — |
| Loss for the year | (15,156) | — | — | — | — | — | (15,156) |
| As at 31 December 2017 | (154,063) | 285,799 | — | 8,228 | — | 1 | 139,965 |

NOTES TO THE FINANCIAL STATEMENTS

21. RESERVES (Continued)

The following describes the nature and purpose of each reserve within shareholders' equity:

(a) Accumulated losses

This represents cumulative net gains and losses recognised in profit or loss.

(b) Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

(c) Share-based payment reserve

The share-based payment reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 3.14(iii) to the consolidated financial statements. The amount will be transferred to the share premium account when the related options are exercised, or transferred to accumulated losses should the related options expire or be forfeited.

(d) Capital redemption reserve

This represents the repurchase of shares of the Company listed on the HK Stock Exchange. These repurchased shares were cancelled upon repurchase and, accordingly, the nominal value of the cancelled shares was credited to capital redemption reserve and the aggregate consideration paid was debited to the accumulated losses and share premium accounts.

(e) Investment revaluation reserve

This represents accumulated gains and losses arising on the revaluation of AFS financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those investments have been disposed of, are determined to be impaired.

(f) Statutory reserve

As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), certain subsidiaries of the Company in the PRC are required to maintain a statutory reserve which is non-distributable. Transfer to this reserve is made out of profit after taxation of the subsidiaries' PRC statutory financial statements which are prepared in accordance with the accounting principles generally accepted in the PRC.

(g) Foreign currency exchange reserve

This represents gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

22. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2017 | 2016 |
|----------|----------|----------|
| | Assets | Assets |
| | US\$'000 | US\$'000 |
| Warrants | — | 186 |

23. DEFERRED TAX LIABILITIES

Deferred taxation is calculated on temporary differences under liability method using the rates of taxation prevailing in the countries in which the Group's subsidiaries operate.

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

| | Fair value adjustments arising from the acquisition of subsidiaries | |
|-----------------------------------------------|------------------------------------------------------------------------|----------|
| | 2017 | 2016 |
| | US\$'000 | US\$'000 |
| At 1 January | 19,318 | — |
| Acquisition of subsidiaries (notes 13 and 32) | — | 21,600 |
| Credited to profit or loss (note 8) | (2,805) | (2,282) |
| At 31 December | 16,513 | 19,318 |

The amount credited to profit or loss relates to the amortisation of intangible asset.

As at 31 December 2017, certain subsidiaries incorporated in the United Kingdom of the Group have unused tax losses of US\$68 million (2016: US\$73 million). No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The unused tax losses will not expire under current tax legislation and can be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

24. RETIREMENT BENEFIT OBLIGATIONS

The Group (excluding Plethora and its subsidiary) has operated a defined contribution staff retirement scheme in Hong Kong which has complied with all the respective requirements of the Occupational Retirement Schemes Ordinance (“**ORSO**”) since April 1991. On 1 December 2000, the above scheme was terminated and transferred to a new mandatory provident fund scheme (the “**MPF Scheme**”) which complies with all the respective requirements under the Mandatory Provident Fund Ordinance (the “**MPF Ordinance**”). All assets under the schemes are held separately from the Group under independently administered funds. The MPF Scheme has two plans. Plan A is available to those employees who were transferred from the old ORSO scheme and contributions are based on a specific percentage of the basic salary of the eligible employees. Plan B is available to all other employees in Hong Kong and contributions follow the minimum requirements of the MPF Ordinance.

Contributions are expensed as incurred and may be reduced by contributions forfeited by those employees under Plan A who leave the scheme prior to vesting fully in the contributions. During the year ended 31 December 2017, the Group’s contributions (exclude Plethora) were US\$24,000 (2016: US\$25,000). There were no forfeited contributions during the year (2016: Nil).

For the Group’s subsidiaries operating in the UK, pensions to certain employees are provided through contributions to individual personal pension plans. A defined contribution plan is a pension plan under which the UK subsidiaries pay fixed contributions into an independent entity. The UK subsidiaries have no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of personal pension plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature. During the year ended 31 December 2017, Plethora’s contributions were US\$18,000 (2016: US\$93,000).

NOTES TO THE FINANCIAL STATEMENTS

25. OPERATING LEASE COMMITMENTS

| | 2017 US\$'000 | 2016 US\$'000 |
|---------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| At 31 December 2017 and 2016, the total future minimum lease payments under non-cancellable operating leases were payable as follows: | | |
| Property: | | |
| – within one year | 674 | 369 |
| – in the second to fifth years, inclusive | 1,047 | — |
| | 1,721 | 369 |
| Equipment: | | |
| – within one year | 3 | 3 |
| – in the second to fifth years, inclusive | 7 | 10 |
| | 10 | 13 |
| | 1,731 | 382 |

The Group leased a number of properties under operating leases. The leases typically ran for an initial period of one to three years (2016: one to three years), with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

26. CAPITAL COMMITMENTS

The Group has no material capital commitments as at 31 December 2017 and 2016.

27. CONTINGENT LIABILITIES

Save as those disclosed in note 31, the Group has no other material contingent liabilities as at 31 December 2017 and 2016.

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's management in closely monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The most significant financial risks to which the Group is exposed to are described below:

Foreign currency risk

Currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group will monitor its foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

The Group has exposure to currency risk as some of its financial assets and liabilities are denominated in currencies other than the functional currencies of the group companies.

Foreign currency denominated financial assets and liabilities, translated into US\$ at the closing rate, are as follows:

| At 31 December 2017 | US\$'000 | US\$'000 | US\$'000 |
|-------------------------------------------------------|--------------|--------------|-----------|
| | GBP | AUD | CAD |
| Cash and bank balances | 37 | 420 | — |
| Financial assets at fair value through profit or loss | — | 8,771 | 7 |
| Prepayments, deposits and other receivables | 2 | — | 14 |
| Accruals and other payables | (35) | — | — |
| Current net exposures | 4 | 9,191 | 21 |
| At 31 December 2016 | US\$'000 | US\$'000 | US\$'000 |
| | GBP | AUD | CAD |
| Cash and bank balances | 192 | — | — |
| Financial assets at fair value through profit or loss | 2,618 | 4,288 | 22 |
| Prepayments, deposits and other receivables | 139 | — | — |
| Accruals and other payables | (1,885) | (29) | — |
| Current net exposures | 1,064 | 4,259 | 22 |

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the reporting date to a reasonably possible change in the GBP, AUD and CAD exchange rates, with all other variables held constant, of the Group's net loss (due to changes in the fair value of monetary assets and liabilities).

| | Increase/ (decrease) in exchange rate % | Increase/ (decrease) in net profit US\$'000 |
|--------------------------------|--------------------------------------------------|------------------------------------------------------|
| At 31 December 2017 | | |
| If US\$ weaken against GBP | 5 | 1 |
| If US\$ strengthen against GBP | (5) | (1) |
| If US\$ weaken against AUD | 5 | 460 |
| If US\$ strengthen against AUD | (5) | (460) |
| If US\$ weaken against CAD | 5 | 1 |
| If US\$ strengthen against CAD | (5) | (1) |
| At 31 December 2016 | | |
| If US\$ weaken against GBP | 5 | 53 |
| If US\$ strengthen against GBP | (5) | (53) |
| If US\$ weaken against AUD | 5 | 213 |
| If US\$ strengthen against AUD | (5) | (213) |
| If US\$ weaken against CAD | 5 | 1 |
| If US\$ strengthen against CAD | (5) | (1) |

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group's investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long-term strategic purposes. Transactions involving derivative financial instruments are with counterparties of sound credit standing. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

The Group's other receivables are actively monitored to avoid significant concentrations of credit risk.

Liquidity risk

The following table details the remaining contractual maturities at the reporting date of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay:

| At 31 December 2017 | Carrying amount US\$'000 | Total contractual undiscounted cash flow US\$'000 | Within 6 months or on demand US\$'000 |
|-----------------------------|--------------------------------|---------------------------------------------------------------|------------------------------------------------|
| Trade payables | 182 | 182 | 182 |
| Accruals and other payables | 3,361 | 3,361 | 3,361 |
| | 3,543 | 3,543 | 3,543 |

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

| At 31 December 2016 | Carrying amount US\$'000 | Total contractual undiscounted cash flow US\$'000 | Within 6 months or on demand US\$'000 |
|-----------------------------|--------------------------------|---------------------------------------------------------------|------------------------------------------------|
| Trade payables | 1,591 | 1,591 | 1,591 |
| Accruals and other payables | 4,283 | 4,283 | 4,283 |
| | 5,874 | 5,874 | 5,874 |

The Group was in a positive financial position at the end of 2017, with cash and cash equivalents amounting to US\$2,251,000 (2016: US\$291,000).

The Group finances its operations and investment activities with internally generated cash flow, balanced with proceeds from the issue of new shares where necessary.

The Group's policy is to monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and long-term.

Interest rate risk

The Group has no long-term external borrowings which bear floating interest rates. The Group's exposure to market risk for changes in interest rate related primarily to cash balances with banks.

Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rate, with all other variables held constant, would decrease/increase the Group's loss after tax and accumulated losses by approximately US\$13,000 (2016: US\$29,000). The general increase/decrease in interest rate would have no significant impact on other components of the consolidated statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value estimation

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity.

The fair value of non-current financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Fair value measurements recognised in the consolidated statement of financial position

The following table presents financial assets and liabilities measured at fair value in the consolidated statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value estimation (Continued)

The financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

At 31 December 2017

| | Note | Level 1 US\$'000 | Level 2 US\$'000 | Level 3 US\$'000 | Total US\$'000 |
|------------------------------------|------|---------------------|---------------------|---------------------|-------------------|
| Assets | | | | | |
| Listed securities held for trading | (a) | 8,778 | — | — | 8,778 |

At 31 December 2016

| | Notes | Level 1 US\$'000 | Level 2 US\$'000 | Level 3 US\$'000 | Total US\$'000 |
|------------------------------------|-------|---------------------|---------------------|---------------------|-------------------|
| Assets | | | | | |
| Listed securities held for trading | (a) | 7,386 | — | — | 7,386 |
| Derivative financial instruments | (b) | — | — | 186 | 186 |
| | | 7,386 | — | 186 | 7,572 |

There were no significant transfers among levels of the fair value hierarchy during the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting periods.

(a) Listed securities held for trading

The listed equity securities are denominated in Canadian and Australian dollars. Fair values have been determined by reference to the last quoted market prices at the reporting date and have been translated using the spot foreign currency rates at the end of the reporting period where appropriate.

(b) Derivatives

Where derivatives are not traded either on exchanges or liquid over-the-counter markets, the fair value is determined with reference to the market price of equity shares to which the derivatives are linked to using pricing models.

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value estimation (Continued)

Information about level 3 fair value measurements is set out below:

| | Fair value as at 31 December 2017 US\$'000 | Fair value as at 31 December 2016 US\$'000 | Valuation technique | Significant unobservable inputs |
|-----------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|-----------------------------------|--------------------------------------------------------|
| Derivative financial instruments | | | | |
| Diabetic Boot - Derivative financial instruments | — | 186 | Binominal Option Pricing Model | Discount for lack of marketability; N/A (2016: 20%) |

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

| | Unlisted AFS equity securities | |
|------------------------------------------------------|--------------------------------|------------------|
| | 2017 US\$'000 | 2016 US\$'000 |
| At 1 January | — | 1,774 |
| Disposal of the remaining interest in Binary Limited | — | (1,774) |
| At 31 December | — | — |

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Price risk

The Group's price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk), which mainly include listed equity securities amounting to US\$8,778,000 classified as financial assets at fair value through profit or loss (2016: US\$7,386,000).

The above investments are exposed to price risk because of change in market price, whether changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's listed investments are primarily listed on the stock exchanges of Australia, Canada, United Kingdom and the United States. Listed investments held in the portfolio have been chosen based on their growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution and in accordance with the limits set by the Group.

At 31 December 2017, if equity prices had increased/decreased by 20% and all other variables were held constant, loss for the year would decrease/increase by US\$1,756,000 (2016: US\$1,477,000). The above analysis has been determined assuming that the reasonably possible changes in the stock market price or other relevant risk variables had occurred at the reporting date and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next annual reporting date.

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at the reporting date may also be categorised as follows.

| | 2017 US\$'000 | 2016 US\$'000 |
|---------------------------------------------------|------------------|------------------|
| (i) Financial assets | | |
| Non-current assets | | |
| AFS financial assets | 1,925 | 1,726 |
| Current assets | | |
| FAFVPL | 8,778 | 7,386 |
| Derivative financial instruments | — | 186 |
| Loans and receivables: | | |
| – Cash and bank balances | 2,251 | 291 |
| – Deposits and other receivables* | 231 | 360 |
| | 11,260 | 8,223 |
| | 13,185 | 9,949 |
| (ii) Financial liabilities | | |
| Current liabilities | | |
| Financial liabilities measured at amortised cost: | | |
| – Trade payables, accruals and other payables | 3,543 | 5,874 |

* Excluded from prepayments, deposits and other receivables as disclosed in the consolidated statement of financial position of US\$681,000 (2016: US\$614,000) is an amount of US\$450,000 (2016: US\$254,000) representing prepayments.

NOTES TO THE FINANCIAL STATEMENTS

29. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's management objectives are:

- To ensure the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth; and
- To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group has not adopted any formal dividend policy.

Management regards equity attributable to the Company's owners as capital, for capital management purpose. The amount of capital as at 31 December 2017 amounted to approximately US\$158,822,000 (2016: US\$181,371,000), which management considers as satisfactory having considered the projected capital expenditures and the projected strategic investment opportunities.

30. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties:

| | 2017 US\$'000 | 2016 US\$'000 |
|----------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Bloomberg service fee recharge to a related company, Burnbrae Limited [#] | 5 | — |
| Consultancy fee income from an associate, Plethora [*] | — | 18 |
| Interest income on deferred consideration in relation to the disposal of Binary Limited's shares to a director, Mr. James Mellon | — | 30 |

[#] Mr. James Mellon, a Non-executive Director and Chairman of the Company, has beneficial interest in Burnbrae Limited.

^{*} The charge to Plethora was in accordance with the terms of the underlying agreements and was in connection with services rendered by the Company's CEO to Plethora. The Group only charged for three months from January to March 2016 and ceased to charge the consultancy fee after the acquisition of Plethora during the year ended 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

30. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

On 12 January 2017, the Company disposed of certain FAFVPL, representing an aggregate of 1,636,998 shares of Condor Gold plc. to Mr. James Mellon (a director of the Company) and Galloway Limited (a company wholly-owned by the trustee of a settlement, of which Mr. James Mellon is the sole beneficiary) for an aggregate amount of cash consideration of approximately GBP 0.81 million (or approximately US\$1.02 million).

Save as disclosed above, the Group has no other material related party transactions for the year.

The Directors are of opinion that the key management personnel were the Directors of the Company, details of whose emoluments are set out in note 7 to the financial statements.

31. CHARGE ON ASSETS

- (i) On 16 January 2013, the Company sold the shares it held in BCI, a junior mining company listed on the Australian Stock Exchange for an amount of A\$81.61 million (equivalent to US\$84.73 million at the then exchange rate between A\$ and US\$), deriving a final realised profit on sale of A\$39.45 million (equivalent to US\$44.44 million at the then exchange rate between A\$ and US\$). The Australian Taxation Office (“ATO”) considered that Capital Gains Tax (“CGT”) was payable in the amount of A\$12.78 million (or approximately US\$13.49 million at the then exchange rate between A\$ and US\$) on this realised profit. On 24 January 2013, the Company received orders from the Federal Court of Australia in relation to a notice of assessment issued by the ATO (the “Assessment”) for the amount referred to above. The amount of the potential tax was due and payable on 2 December 2013, and the orders provided that the Company could not remove from Australia or dispose of, deal with or diminish the value of its assets in Australia up to the unencumbered value of the amount assessed. After consultation with the Commissioner of Taxation (“COT”), the Company agreed to grant the Commonwealth of Australia a specific security deed in respect of the above orders, more details of which are set out in (ii) below. The Company sought external professional advice in relation to the orders and the Assessment and understood that the ultimate determination of the potential taxation liability would be subject to a valuation of BCI’s real property (including mining tenements) and non-real property assets. In light of the Assessment and orders, the Directors made a provision for CGT as per the Assessment in the Company’s financial statements for the year ended 31 December 2012 pending further investigation by the Directors and advice from its professional advisers on this matter.

Since early 2013, the Company has engaged independent professional advisers in Australia to advise them on the merits of the Assessment and Orders issued by the ATO. The independent advice the Company received from its advisers was that based on a valuation of BCI’s real property (including mining tenements) and non-real property assets, the Company had strong and compelling grounds to challenge the Assessment in its entirety. Accordingly, in 2013 the Company reversed the provision it made for CGT in its books.

The Board noted that, during the year ended 31 December 2014, there were further legal developments regarding the Australian taxation rules applicable to the Company and its prior disposal of its investment in BCI. In light of these developments the Company took further external advice from its Australian advisers as to its position. In this respect, the Company proactively and voluntarily shared its independent, expert advice, together with supporting papers and calculations, with the COT and that advice was recently reviewed by an external consultant engaged by the COT.

NOTES TO THE FINANCIAL STATEMENTS

31. CHARGE ON ASSETS (Continued)

On 28 January 2015, the Company and its Australian advisers received a copy of the report produced by the external consultant engaged by the COT and, from that report, understood that the external consultant did not agree with certain material findings in the independent, expert advice received by the Company. The Company and its Australian advisers reviewed the report and identified a number of matters of material disagreement or on which a materially different view was held. Consequently, the Directors remain of the view that the Company had strong and compelling grounds to challenge the Assessment in its entirety and will continue to do so.

As of 31 December 2017 and up to date of this Annual Report, the Company and its Australian advisers were not aware of any changes in the facts of the aforementioned dispute, nor the regulatory landscape or any recent legal developments in Australia which may affect the prior advice received, including that shared with the COT. Therefore, the Company had envisaged entering into a formal dispute resolution process with the COT. This process has now taken place, and the parties have, to date, been unable to reach agreement as to an appropriate way in which to resolve the matter, culminating in the COT determining the Company's previously lodged objection against it on 1 September 2016. The Company's position has not changed and it remains resolute in that it will continue to challenge the assessment in its entirety, consistent with expert and independent Australian advice received throughout, and has lodged an appeal against the COT's determination of the objection in the Australian Federal Court. While a trial date has not yet been set, the matter is now set to be litigated through the Australian court system. The Company is continuing to take advice as to the next appropriate steps from its Australian advisers. The aforementioned security over the above mentioned Australian securities held by the Company, previously granted to the COT, remains.

In light of the above, no tax liability in respect of this matter has been recognised as at 31 December 2017 and 2016.

- (ii) As announced by the Company on 28 January 2013, 18 April 2013 and 23 August 2013 and as further disclosed in the Company's half yearly and annual reports since 2013, the Company received orders from the Federal Court of Australia in relation to an assessment issued by the COT in the amount of A\$12.78 million (or approximately US\$13.49 million at the then exchange rate between A\$ and US\$) following completion of the sale of its securities in BCI for gross proceeds of A\$81.61 million (or approximately US\$84.73 million at the then exchange rate between A\$ and US\$). The amount of potential CGT assessed was due and payable on 2 December 2013. On 7 September 2016, the ATO considered that capital gains tax was amended down and payable in the amount of approximately A\$11.85 million (or approximately US\$8.54 million at the then exchange rate between A\$ and US\$).

Following consultation with the COT and pursuant to the terms of the Settlement Deed (as defined in the announcement dated 18 April 2013), the Company agreed to grant The Commonwealth of Australia, represented by the COT, a specific security deed (as amended by way of a deed of amendment dated 27 November 2013) (together, the "**Specific Security Deed**") in respect of certain of the Company's holding of 518,103,930 shares in Venturex, 10,854,568 shares in Bannerman and 12,700,000 shares in Tigers Realm, of which the aggregate market value (as at 31 December 2017) was A\$10.04 million (or approximately US\$7.84 million), as security against the Assessment, in consideration of the COT taking steps to discontinue the Court orders within 7 days of the date of the Specific Security Deed and stayed recovery action in respect of the Assessment until the matter is resolved within the time provided for in any relevant law following the Final Determination of Objection (as defined in the announcement dated 18 April 2013).

None of the Group's other assets was pledged as at 31 December 2017 (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

32. BUSINESS COMBINATION

On 9 March 2016, the Group acquired the entire issued and to be issued ordinary share capital of Plethora (other than Plethora's shares held by the Group) by means of a scheme of arrangement. Plethora is a UK-based specialty pharmaceutical company dedicated to the development and marketing of products for the treatment and management of urological disorders. The acquisition was made to pursue strategic and value-led investments in the healthcare and life sciences sectors. The Group obtained control over Plethora on the date of completion of the acquisition, which was accounted for using the step acquisition method.

The fair value of identifiable assets and liabilities of Plethora as at the date of acquisition were as follows:

| | US\$'000 | US\$'000 |
|--------------------------------------------------------------------------------------|-----------|-----------|
| Net assets acquired: | | |
| Intangible asset (Fortacin™) (note 13) | 216,000 | |
| Deferred tax liabilities (note 23) | (21,600) | |
| Property, plant and equipment (note 12) | 85 | |
| Cash and bank balances | 564 | |
| Prepayments and other receivables | 742 | |
| Accounts payable, accruals and other payables | (3,276) | |
| | | 192,515 |
| Satisfied by: | | |
| Fair value of consideration shares issued | (143,067) | |
| Fair value of 86,799,490 Plethora shares originally held by the Group (note 14(iii)) | (14,046) | |
| Intangible assets - Sharwood promissory note (note 13) | (3,376) | |
| Derivative financial instruments (Plethora's fundraising warrants) | (340) | |
| | | (160,829) |
| Gain from bargain purchase recognised in profit or loss | | 31,686 |
| Net cash inflow arising on acquisition: | | |
| Cash and bank balances acquired | | 564 |

NOTES TO THE FINANCIAL STATEMENTS

32. BUSINESS COMBINATION (Continued)

The Group measured Plethora's intangible asset (Fortacin™) at the acquisition date fair value to be GBP 175 million (equivalent to approximately US\$216 million), which was estimated with reference to a valuation report prepared by Grant Sherman, an independent expert valuation firm. The fair value was determined by applying an income approach technique known as a discounted cash flow method with an assumed discount rate of between 15% and 18%. Other key assumptions underlying the valuation were the premature ejaculation prevalence rates in Plethora's target markets (estimated at 25% or 1:4 men) and the growth rates and royalty rates in each of the five major geographic regions/markets that Fortacin™ would be marketed and sold in. The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the asset than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent asset with similar risk.

The fair value of the consideration shares issued was determined by reference to the Company's share price of HK\$0.08 per share at 9 March 2016. Under the scheme of arrangement, each registered Plethora shareholder received 15.7076 Regent shares in exchange for each share they held as at 9 March 2016 (the acquisition date). In aggregate, the Company issued 13,886,781,298 new Regent shares to effect the scheme of arrangement, rendering Plethora a wholly-owned subsidiary of the Group, resulting in gain from bargain purchase of US\$31,686,000, which was recognised in profit or loss for the year ended 31 December 2016.

The acquisition-related costs of approximately US\$2.20 million, which comprised primarily professional and consulting fees, were charged to profit or loss for the year ended 31 December 2016.

The fair value of other receivables at the date of acquisition amounting to US\$672,000 was also the gross contractual amounts of these receivables. None of the contractual cash flow of these amounts was estimated to be uncollectable.

The acquired business did not contribute any revenue for 2016 and generated loss after tax of approximately US\$23,753,000 (excluding gain from bargain purchase of US\$31,686,000) to the Group for the period from 9 March 2016 to 31 December 2016.

Had the acquisition occurred on 1 January 2016, the Group's revenue and loss after tax would have been approximately US\$312,000 and US\$12,335,000 respectively for the year ended 31 December 2016.

This pro forma information is for illustrative purpose and is not necessarily an indication of revenue and the results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

NOTES TO THE FINANCIAL STATEMENTS

33. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2016 and 2017 are as follows:

| Name of subsidiary | Country/ Place of incorporation/ continuation/ operation | Issued and fully paid share capital | Percentage of equity interest attributable to the Company | | Principal activities |
|--------------------------------------------------------|----------------------------------------------------------|-------------------------------------|-----------------------------------------------------------|----------|--------------------------------------|
| | | | Direct | Indirect | |
| Alphom Management Limited | Continued in the Cayman Islands | Ordinary share of US\$1 | — | 100% | Investment holding |
| Amerinvest Coal Industry Holding Company (BVI) Limited | British Virgin Islands | Ordinary share of US\$1 | — | 100% | Investment holding |
| Amerinvest Coal Industry Holding Company Limited | British Virgin Islands | Ordinary shares of US\$10,000 | — | 100% | Investment holding |
| AstroEast.com Limited | Cayman Islands | Ordinary shares of US\$280,222 | — | 51% | Investment holding |
| Interman Holdings Limited | British Virgin Islands | Ordinary shares of US\$41,500 | 100% | — | Investment holding |
| Interman Limited | Isle of Man | Ordinary shares of GBP 436,152 | — | 100% | Investment holding |
| MinMetallurgical Consultants Limited | British Virgin Islands | Ordinary share of US\$1 | 100% | — | Provision of mill expansion services |
| Regent (Australia) Limited | Cayman Islands | Ordinary share of US\$1 | 100% | — | Investment holding |
| Regent Coal (Holdings) Limited | Cayman Islands | Ordinary share of US\$1 | 100% | — | Investment holding |
| Regent Corporate Finance Limited | Cayman Islands | Ordinary shares of US\$2 | 100% | — | Corporate finance |
| Regent Financial Services Limited | Hong Kong | HK\$5 million | — | 100% | Provision of management services |
| Regent Fund Management (Asia) Limited | Continued in the Cayman Islands | Ordinary shares of US\$100 | 100% | — | Asset management |

NOTES TO THE FINANCIAL STATEMENTS

33. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2016 and 2017 are as follows: (Continued)

| Name of subsidiary | Country/ Place of incorporation/ continuation/ operation | Issued and fully paid share capital | Percentage of equity interest attributable to the Company | | Principal activities |
|------------------------------------------|----------------------------------------------------------|-------------------------------------|-----------------------------------------------------------|----------|------------------------------------------------------------------------------------------------|
| | | | Direct | Indirect | |
| Regent Fund Management Limited | Continued in the Cayman Islands | Ordinary shares of US\$150,000 | — | 100% | Asset management |
| Regent (Indonesia II) Limited | Cayman Islands | Ordinary share of US\$1 | 100% | — | Provision of metallurgical services |
| Regent Metals Holdings Limited | British Virgin Islands | Ordinary shares of US\$10,000 | 100% | — | Investment holding |
| Regent Pacific Group (Hong Kong) Limited | Hong Kong | HK\$5 million | 100% | — | Provision of management services |
| RPG (Bahamas) Limited | Bahamas | Ordinary shares of US\$134,220 | 100% | — | Investment holding |
| RPG Investments I Limited | Cayman Islands | Ordinary share of US\$1 | 100% | — | Investment holding |
| Plethora Solutions Holdings plc | United Kingdom | Ordinary shares of GBP 8,944,977 | 100% | — | Development and marketing of products for the treatment and management of urological disorders |
| Plethora Solutions Limited | United Kingdom | Ordinary shares of GBP 152 | — | 100% | Development and marketing of products for the treatment and management of urological disorders |

The above table lists out the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2017 US\$'000 | 2016 US\$'000 (Re-presented) [#] |
|----------------------------------------------------------------|-------|------------------|-------------------------------------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Interests in subsidiaries | | 158,726 | 158,726 |
| Interest in an associate | | 1 | 2,661 |
| Available-for-sale financial assets | | 1,925 | 1,726 |
| | | 160,652 | 163,113 |
| Current assets | | | |
| Amounts due from subsidiaries* | | 4,235 | 15,941 |
| Financial assets at fair value through profit or loss | | 8,778 | 7,386 |
| Prepayments, deposits and other receivables | | 103 | 135 |
| Cash and bank balances | | 2,089 | 23 |
| Derivative financial instruments | | — | 186 |
| | | 15,205 | 23,671 |
| Current liabilities | | | |
| Amounts due to subsidiaries* | | (14,646) | (14,684) |
| Trade payables, deposits received, accruals and other payables | | (2,874) | (3,553) |
| | | (17,520) | (18,237) |
| Net current (liabilities)/assets | | (2,315) | 5,434 |
| Net assets | | 158,337 | 168,547 |
| EQUITY | | | |
| Capital and reserves | | | |
| Share capital | 20 | 18,372 | 17,372 |
| Reserves | 21 | 139,965 | 151,175 |
| Total equity | | 158,337 | 168,547 |

[#] Certain comparative amounts were reclassified to conform to the current year's presentation.

* The amounts due are unsecured, interest-free and repayable on demand.

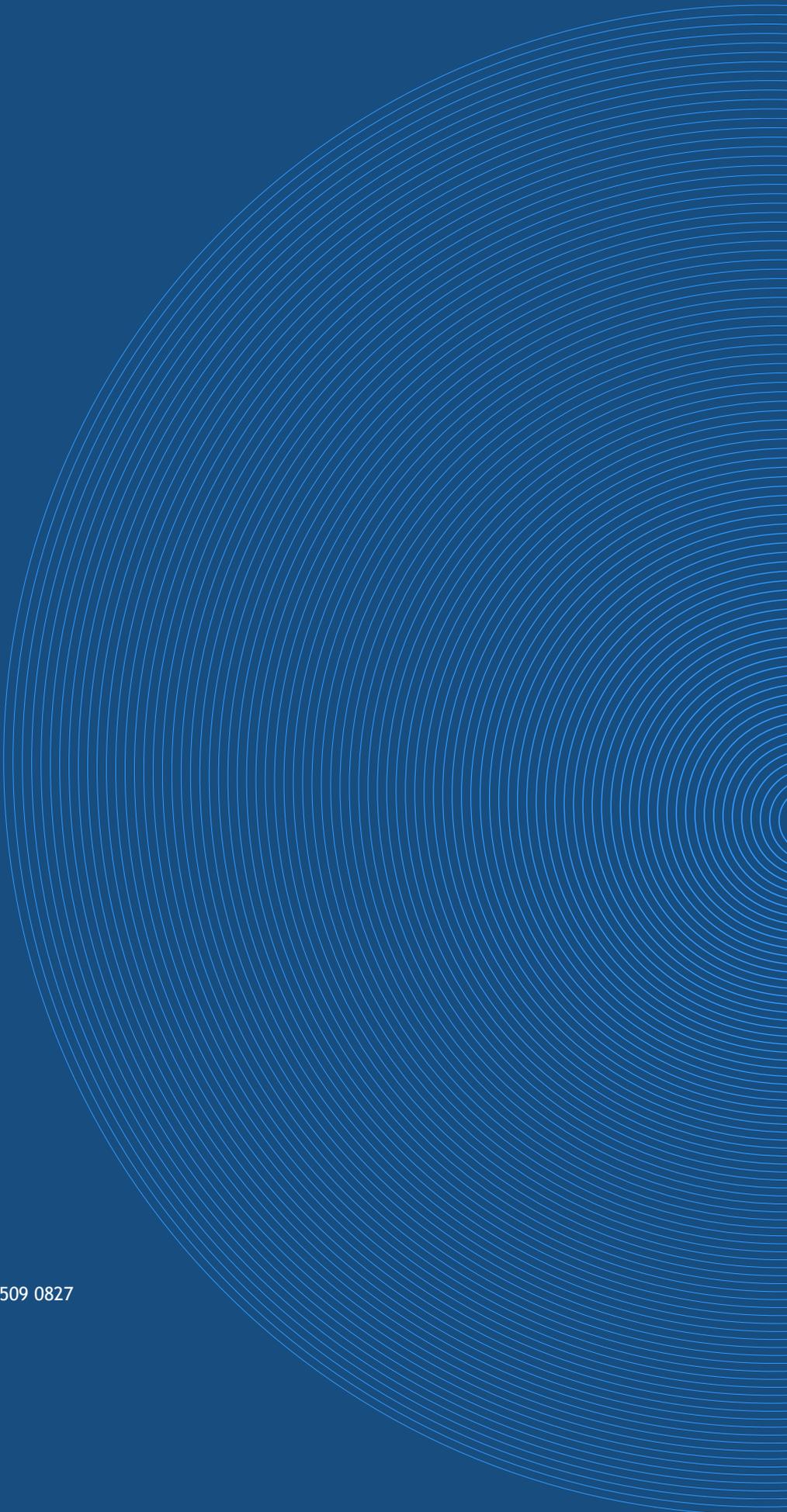
The statement of financial position of the Company was approved by the Board of Directors on 23 March 2018 and was signed on its behalf.

James Mellon
Chairman

Jamie Gibson
Executive Director

35. EVENT AFTER THE REPORTING PERIOD

There were no material events requiring disclosure after the year end date.



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